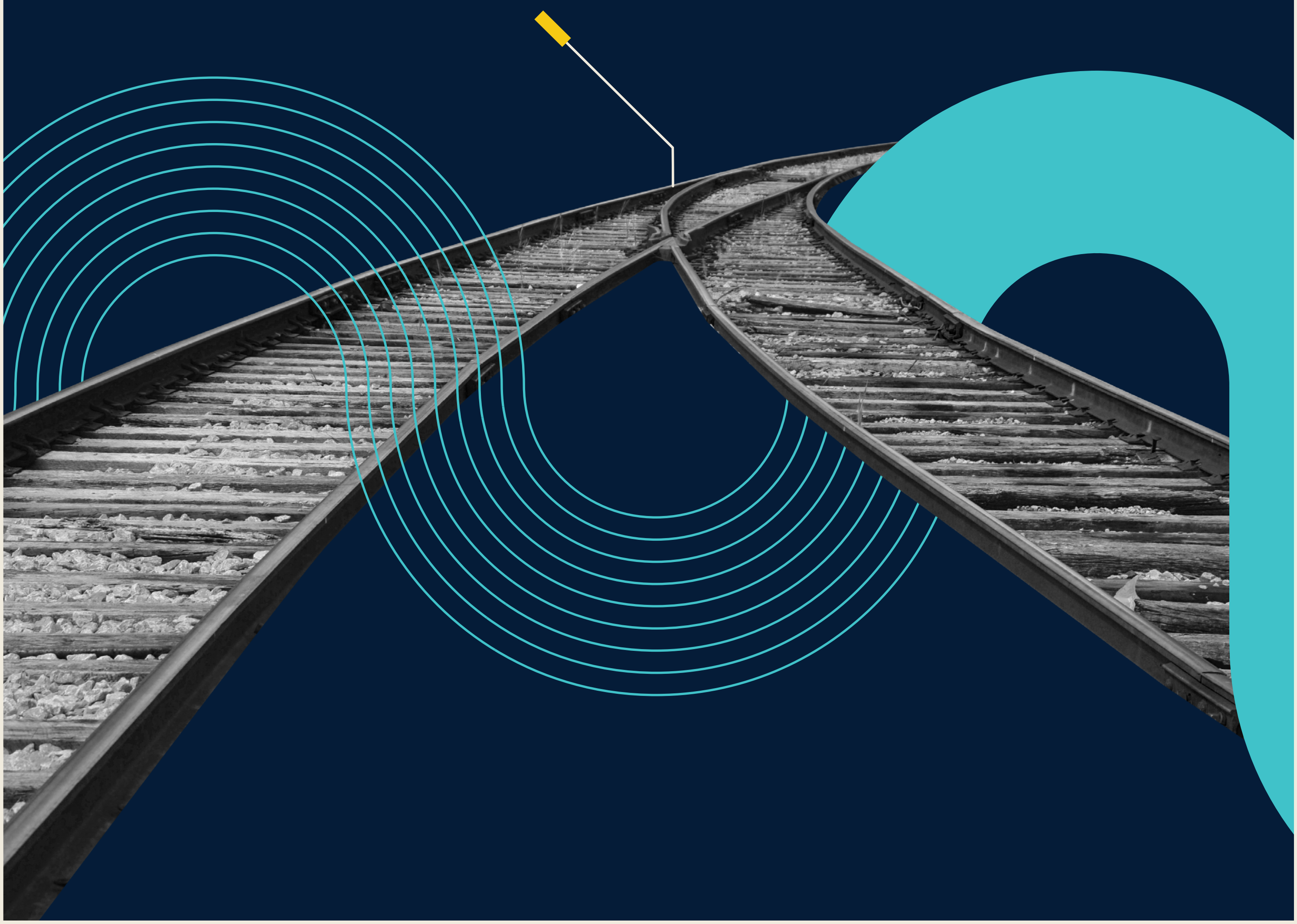
PitchBook

Q2 2023

GLOBAL M&A Report



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Contents

Methodology change update:
In connection with our previously communicated methodology change, we will discontinue estimating future restatements in deal value. Since adopting our new methodology of including announced deals in addition to completed deals, the restatement of deal value has diminished greatly, and as such, estimates based on historic activity are no longer warranted. This change will apply to deal value only. We will continue to estimate expected revisions in deal count, as that has remained fairly consistent with prior observed activity. This change will apply to this and all future PE- and M&A-related reports and harmonizes with the methodology already in use for VC-related reports.

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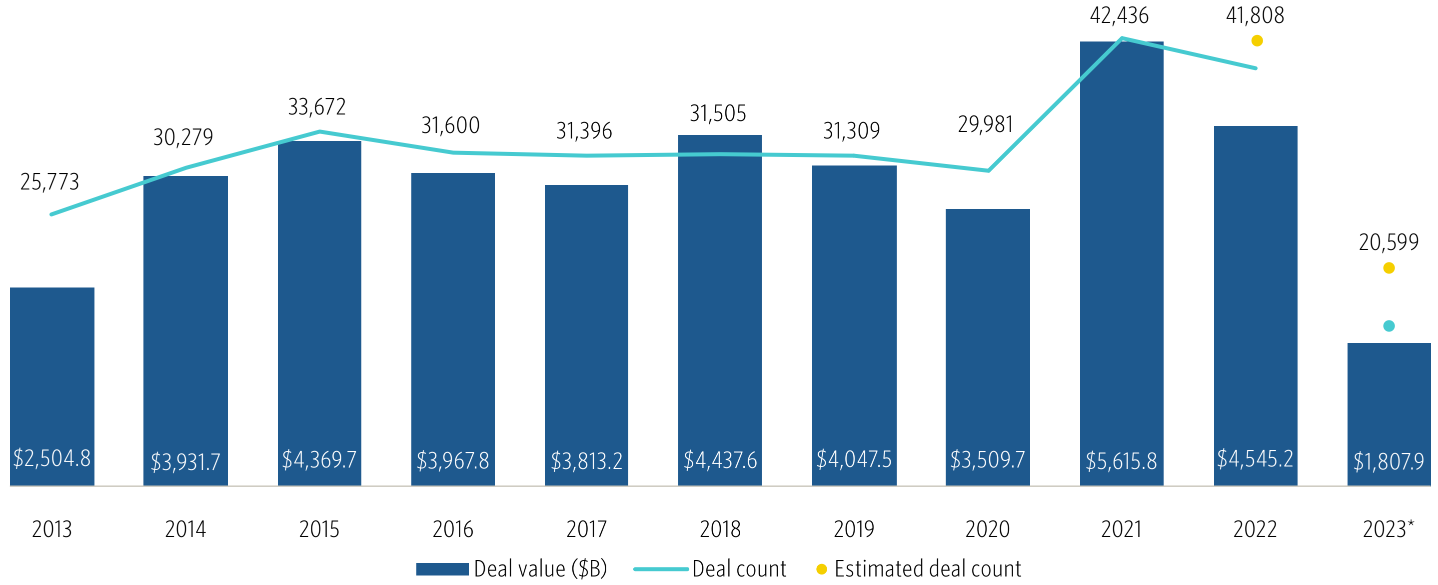
Click here for PitchBook's report methodologies.

Overview

M&A activity



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Tim Clarke
Lead Analyst, Private Equity

The value of global M&A drifted lower in Q2 even while the number of announced or completed deals flirted with near-record highs. Deal value fell to $873.4 billion in Q2, down 6.5% from Q1, for one of the weakest quarters recorded since the pandemic-induced free-fall of Q2 2020. On the year, dollar value is down 33.7%, and we are now 41.9% removed from the quarterly peak set in Q4 2021. By contrast, deal count is relatively unchanged on the year and has declined by a less severe 13.8% from the 2021 peak.

This divergence between dollar volume and deal count is the byproduct of two powerful and opposing forces: significantly higher interest rates and the massive cash piles that remain on the books of corporations and financial sponsors. The impact of higher interest rates has been well documented, especially for financial sponsors, which rely on floating-rate debt to finance leveraged buyouts (LBOs). The yield-to-maturity leveraged loans backing LBOs averaged 9.5% in H1 2023, up sharply from 6.2% in H1 2022. Simultaneously, leveraged ratios have collapsed. Debt as a percentage of LBO enterprise value has averaged 43.3% on broadly syndicated loans so far this year, down sharply from its five-year average of 52.2%. Higher borrowing costs and reduced access to credit translate to smaller deals. Financial sponsors still account for 33.5% of all M&A deals, although that share has rolled over after 10 consecutive years of growth.

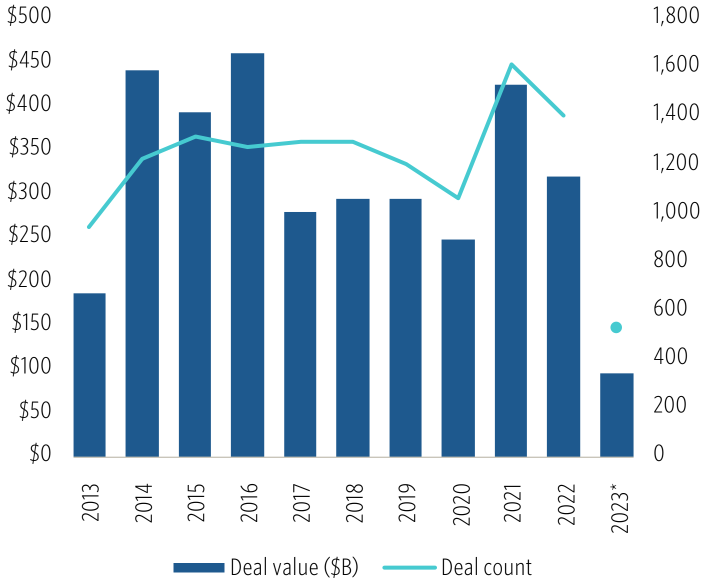
At the same time, the amount of unspent dry powder that has yet to be called and invested by these sponsors stands at $1.35 trillion, just 9.7% shy of its all-time high. An even larger cash pile is on the books of corporations. In the US alone, cash holdings surpassed $4.0 trillion in Q1 2023,[1] just 3.3% shy of its all-time high, and measures $5.8 trillion inclusive of reserves held overseas.[2] While only a portion of this is earmarked for strategic investments and acquisitions, untapped borrowing capacity and stock value easily compensate for the rest. Meanwhile, with growth in corporate profits having turned negative for several quarters now, attention has turned to buying revenues through acquisition, where it cannot be developed organically.

1: "US Corporate Cash Holdings Increase," The Carfang Group, June 9, 2023.
2: "Why Are US Companies Hoarding So Much Cash?" KelloggInsight, Michael Faulkender, Kristine W. Hankins, and Mitchell A. Petersen, April 29, 2022.

M&A activity by quarter

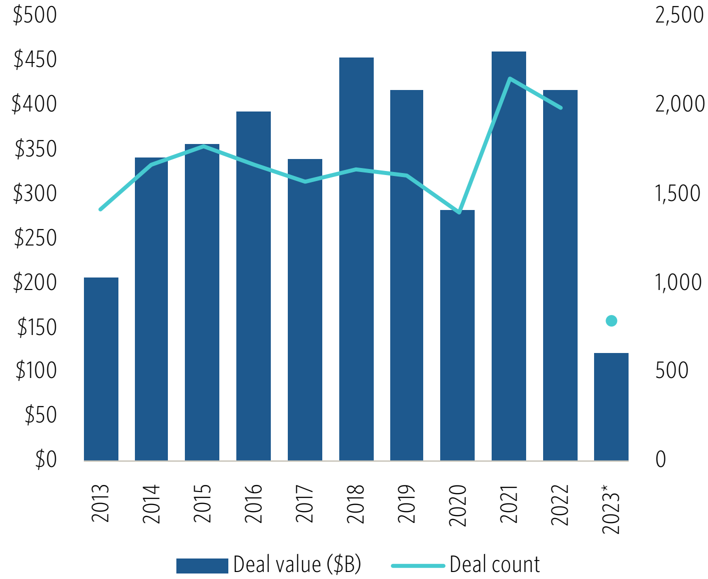
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

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



Source: PitchBook • **Geography:** North America
*As of June 30, 2023

European M&A activity with non-European acquirer

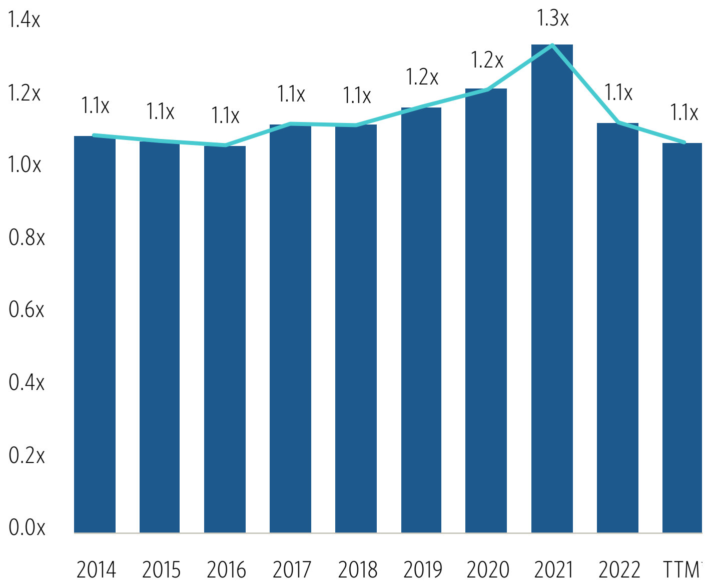


Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

M&A megadeal EV/revenue multiples

Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023
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 June 30, 2023
Note: Multiples are rounded to the nearest tenth place.

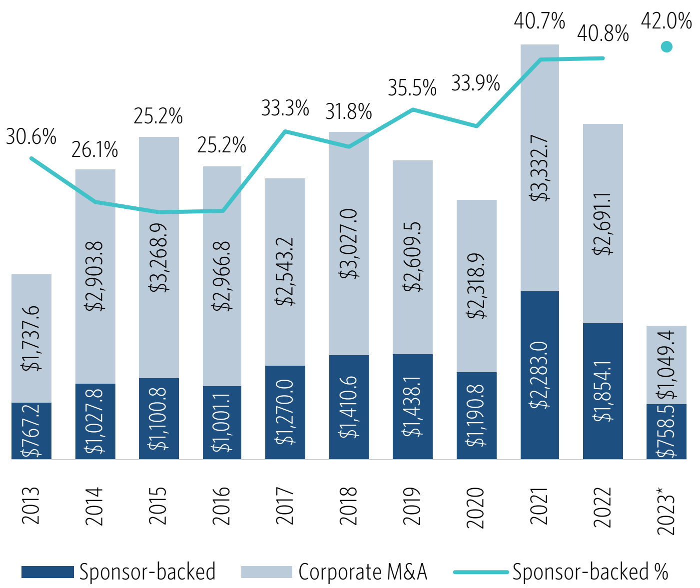
The combination of near-record PE dry powder and corporate cash reserves places pressure on potential acquirers to spend at the same time credit conditions are holding them back, resulting in the stalemate we are seeing now of high-frequency dealmaking at smaller sizes and lower aggregate value. This can be seen most clearly when comparing the velocity of deals today to the old "normal" in the years preceding the global pandemic. Whereas Q2 dollar volume has fallen to 14.8% below the 2017 to 2019 quarterly average, total M&A deal count is higher by 28.8%.

Prices paid on global M&A deals are in full correction mode. Using enterprise value (EV) to EBITDA as a metric, multiples remained in a tight band of between 9.7x and 10.5x in the five years ended 2021 before collapsing by 16.2% in the two years since. The median EV to EBITDA multiple now stands at 8.8x for the 12 months ended Q2 2023, down from 8.9x in 2022 and 10.5x in 2021, the all-time peak. EV to revenue multiples tell a similar story. After surging to 2.0x in 2021, the median multiple has declined by an even more severe 24.0%. EV to revenue is a broader yardstick of value, as it captures a bigger sample size than EV to EBITDA, including the tech and financial sectors where EBITDA is not necessarily relevant. The median EV to revenue multiple now stands at 1.5x on a trailing 12-months (TTM) basis, down marginally from 2022 but down from 2021's all-time peak of 2.0x, when tech and financials were riding high.

Splitting out by major region, Europe has fallen harder with a peak-to-date midpoint decline of roughly 24.3% (1.8x to 1.3x on revenue multiples, 10.4x to 8.5x on EBITDA) compared to a milder 16.6% decline at the midpoint for North America (2.5x to 1.9x on revenue, 10.8.x to 10.0x on EBITDA). Lastly, there is a clear relationship between purchase price multiples paid and size, with valuations stepping up to buy scale and stepping down for smaller companies and bolt-on deals. Buyers paid a median multiple of 18.3x EBITDA in megadeals of $5.0 billion or more, over twice the median multiple for all deals. Looking at the other end of the size scale—companies and deals below $100 million in value—significant discounts emerge, with a median EBITDA multiple at 7.0x, or 52.0% below the median multiple paid for deals above that size range. Multiples fell more steeply in this size bucket, down 19.1% from 2021's median multiple of 8.6x.

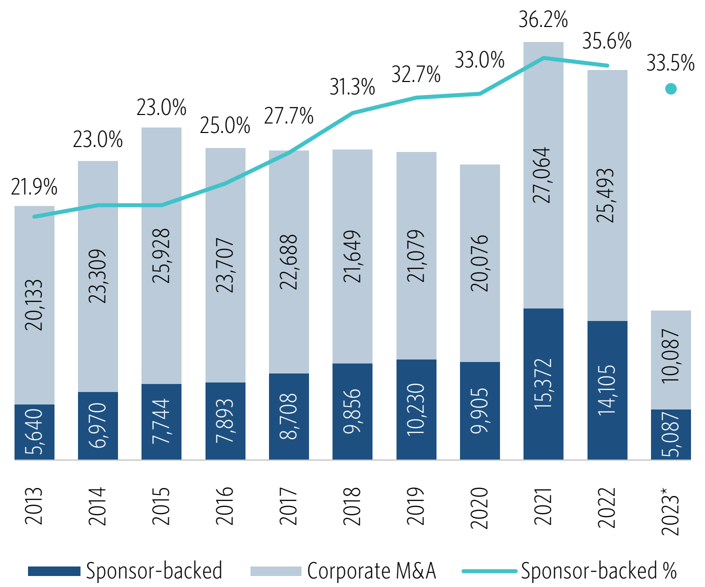
Deal metrics

M&A value ($B) by acquirer type



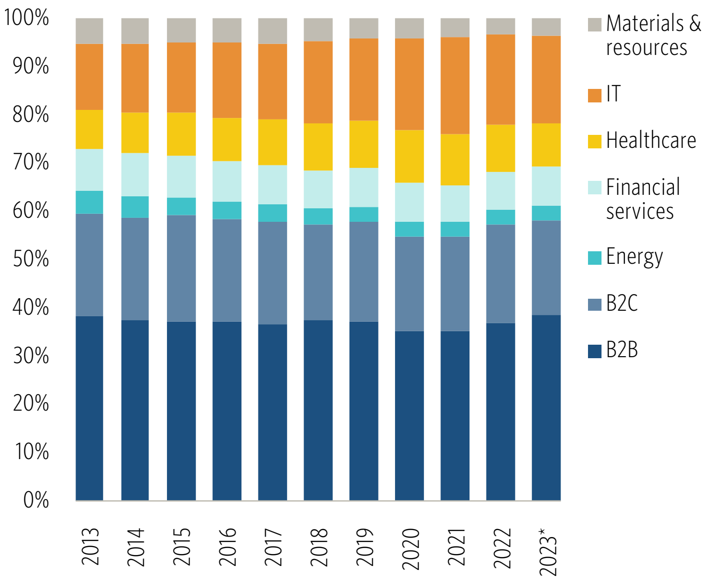
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

M&A count by acquirer type



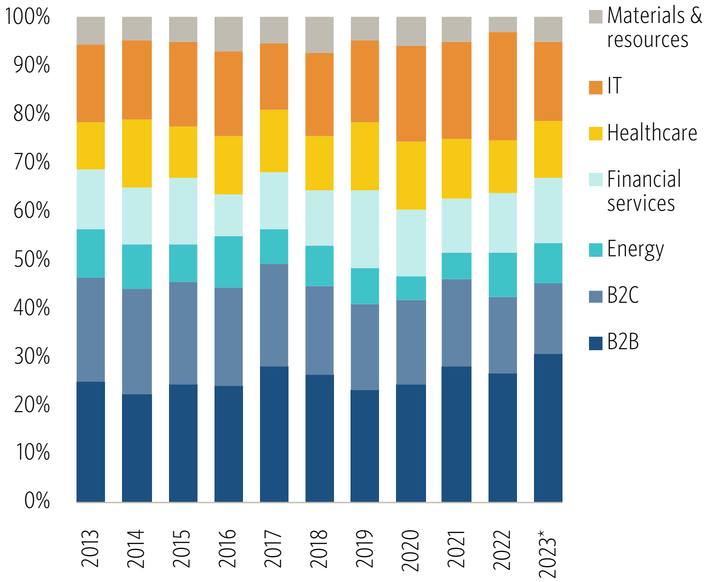
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Share of M&A count by sector



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

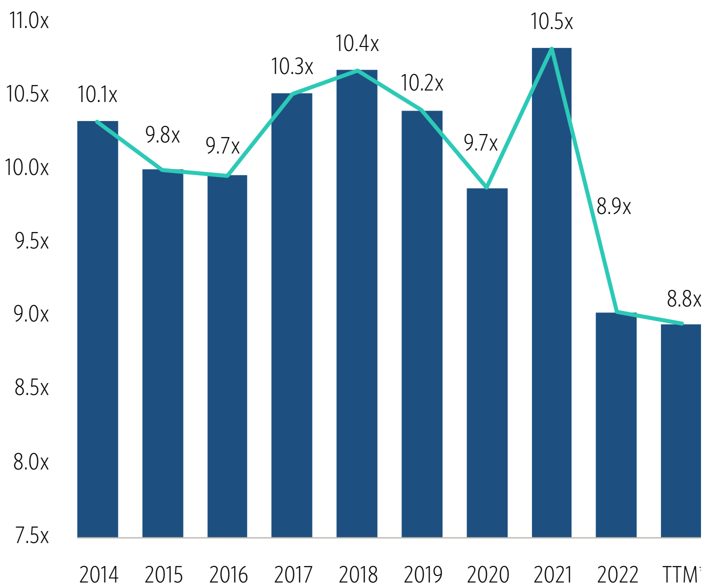
Share of M&A value by sector



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

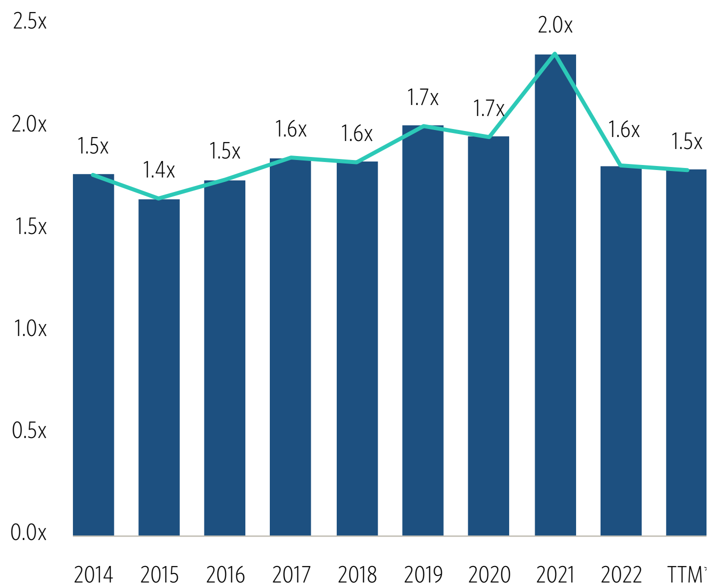
Valuation metrics

Median M&A EV/EBITDA multiples



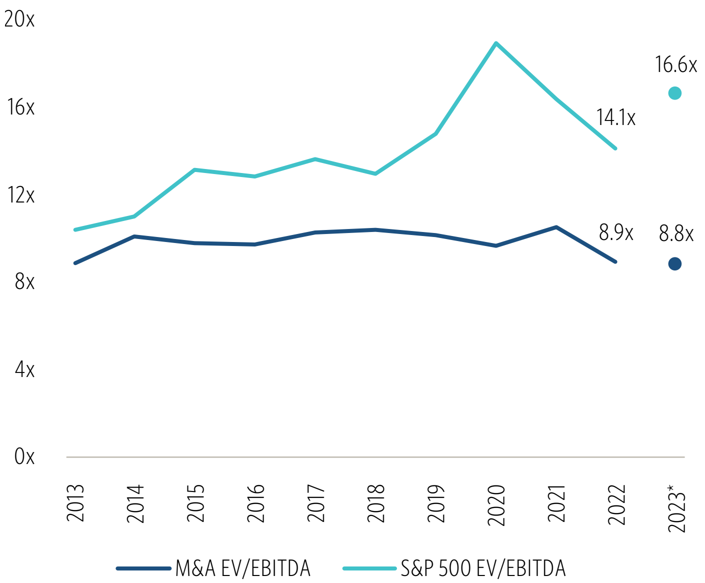
Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

Median M&A EV/revenue multiples



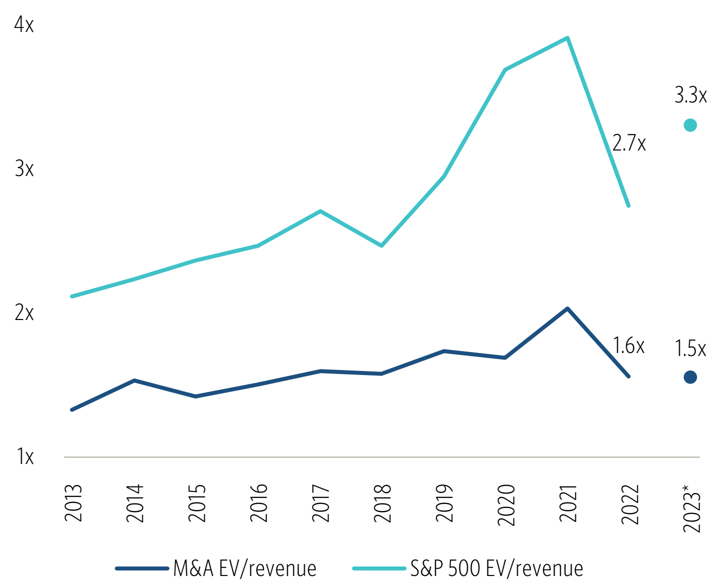
Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

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



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

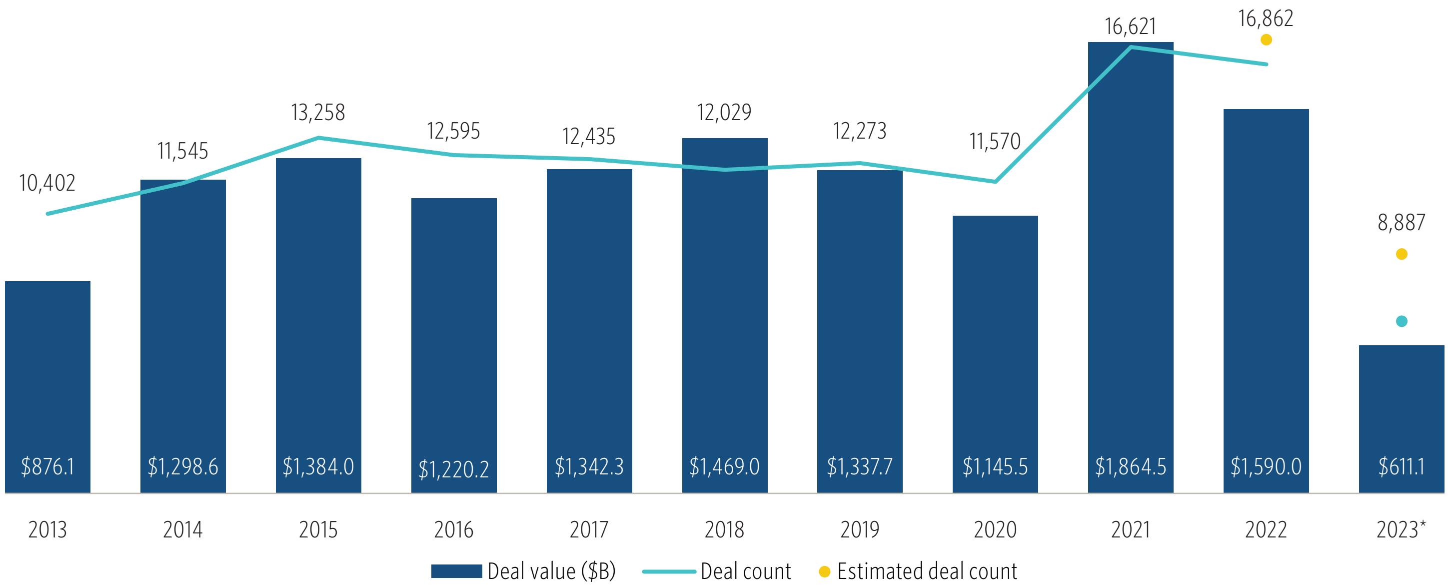
Public company trading multiples versus M&A multiples (EV/revenue)



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

European M&A

M&A activity



Source: PitchBook • **Geography:** Europe
*As of June 30, 2023

Navina Rajan
Senior Analyst, EMEA Private Capital

European M&A deal value in H1 2023 amounted to $611.1 billion, down 28.8% versus the same period in 2022. On an annualized basis, the rate of activity in this first half of the year would imply that deal value ends 2023 23.1% lower than 2022. The magnitude of the declines would be similar for deal count, implying that 2023 is on track for more muted levels of activity from both a value and volume perspective. Furthermore, it is unlikely that current levels of activity will be sustained through the year, given sequential trends in activity. Since Q3 2022, QoQ European deal value has slowed, with Q2 2023 proving no different. Deal value in Q2 2023 came in at $293.4 billion, down 7.6% QoQ and 40.2% lower versus Q2 2022. YoY comparisons will prove most difficult this quarter given the peak levels of activity in the same period in 2022. This should improve through the year as we lap lower levels of activity. However, fundamental drivers of deal flow such as interest rates are likely to still contribute to a continued slowdown in activity as financing costs and hurdle rates increase amid declining valuations. Inflation is stickier in Europe compared with the US, meaning that interest rates hikes and corrections in valuations are likely to be more prevalent in Europe in H2. Lower valuations may boost buying activity from a volume perspective as players weigh in on depressed asset values, but bid-ask spreads will need to narrow for deals to close.

By sector, financial services showed more resilience, while healthcare lagged. There are nuances in European M&A activity by sector, as financial services is the only sector where the H1 2023 run rate of activity implies deal value could end 2023 higher than 2022. The deal value of $80.2 billion in H1 2023, if maintained for the rest of the year, would mean activity for the full year comes in 22.6% higher than 2022. So far, the resilience has been supported by large, well-known deals in Q1, such as UBS' acquisition of Credit Suisse and the take-private of Rothschild by Concordia. Deal value in Q2, although 24.0% lower QoQ, has also exhibited larger deals, such as the buyout of Crux Asset Management for €1.1 billion and three megadeals during the quarter. On the other hand, the healthcare deal value of $40.5 billion sits 74.0% below full-year 2022, a run rate of activity that would imply the full year comes in 48.0% lower than 2022, if maintained. This may appear surprising due to the conventional resilience of the sector during downturns from a structural perspective. However, investors in the space often hold off until a year or so after periods of market corrections, when activity tends to rebound after full resets in valuations. It therefore remains to be seen whether the sector activity will bounce back in 2024 as deal value lags in 2023.

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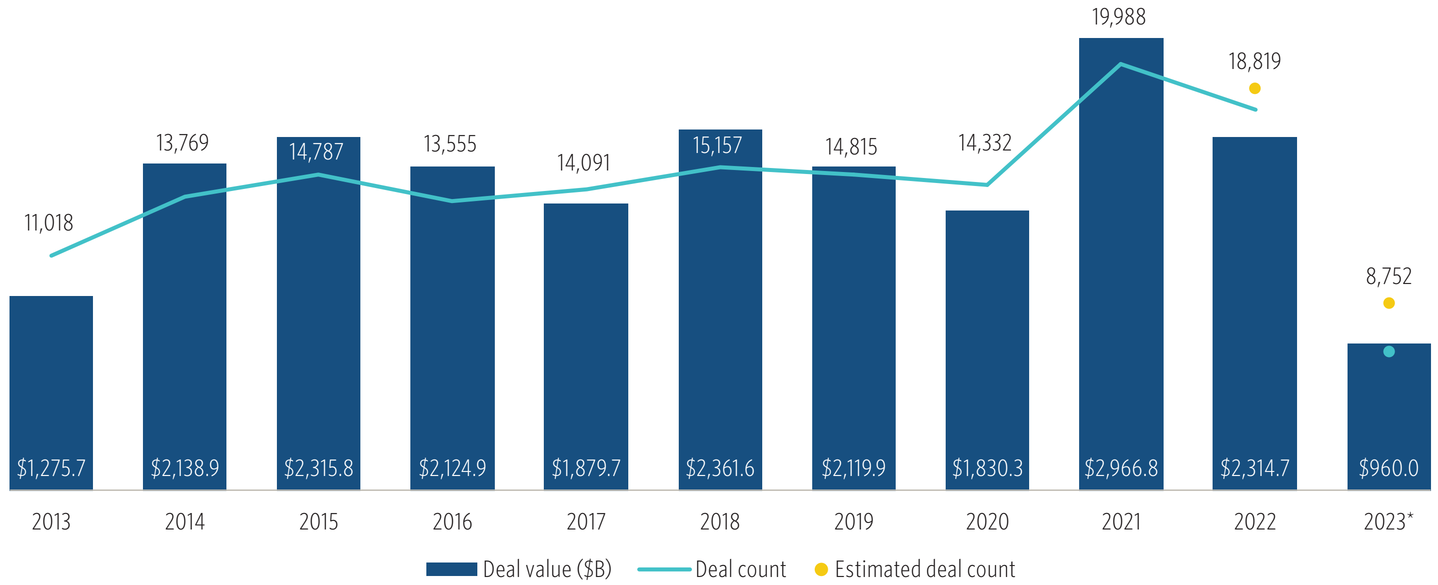
North American M&A

M&A activity



Source: PitchBook • **Geography:** North America
*As of June 30, 2023

Garrett Hinds
Senior Analyst, Private Equity

M&A activity in North America slowed further in Q2 2023, with an estimated 4,276 deals closed or announced for a combined value of $466.5 billion. When measured by count, this is lower by 4.5% QoQ, and when measured by value, down 5.5% QoQ. This puts the H1 2023 tally at $960.0 billion, below the H1 2022 levels by 28.5%, and below the pre-pandemic H1 average by 16.2%.

Key factors restraining deal activity include the disconnect between buyer and seller valuation expectations, higher financing costs, and tighter credit availability relative to the same period in 2022. The SVB collapse in March and the banking sector turmoil that lingered into May created an additional headwind for dealmaking, as buyers hoped to find distressed sellers, and sellers hunkered down for this storm's passing. There were positive developments, as banks ramped up lending for LBOs late in March, following a pause in H2 2022, providing much-needed oxygen to get the M&A furnace up to temperature. Still, across the spectrum of lenders and creditors, underwriting remains difficult and favors deals with clear rationale and achievable financial forecasts.

Another encouraging sign is that corporate buyers are stepping up to sign on the dotted line, benefiting from less competition as other bidders are sidelined and looking for financing. More corporate buyers are likely to participate in H2 2023 as their strong balance sheets and sizable core businesses enable access to financing that would be elusive for downmarket suiters.

The top 10 deals in Q2 2023 totaled $88.3 billion, a sharp decline of 22.4% QoQ and 56.2% YoY and reflective of the shift to deals with lower leverage. Headlining the Q2 deal leaderboard was Magellan Midstream Partners' $18.8 billion cash and stock sale to ONEOK. The combination will position ONEOK to achieve cost synergies and diversify its business to deliver resilient cash flows through diverse commodity cycles, according to management.[3] Second, Prometheus Biosciences announced a $10.8 billion all-cash sale to Merck & Co. to enhance Merck's research capabilities and strengthen its pipeline of treatments for autoimmune conditions. Lastly, Thoma Bravo announced the sale of its portfolio company Adenza to Nasdaq for $10.5 billion in a mix of cash and stock. With the deal, Nasdaq seeks to increase its serviceable addressable market by $10.0 billion and expand its software solutions portfolio. The deal will be financed in part by a $5.9 billion debt offering, and Thoma Bravo's consideration will include a 14.9% stake in Nasdaq.

3: "ONEOK To Acquire Magellan Midstream Partners in Transaction Valued at $18.8 Billion," ONEOK, May 14, 2023.

B2B

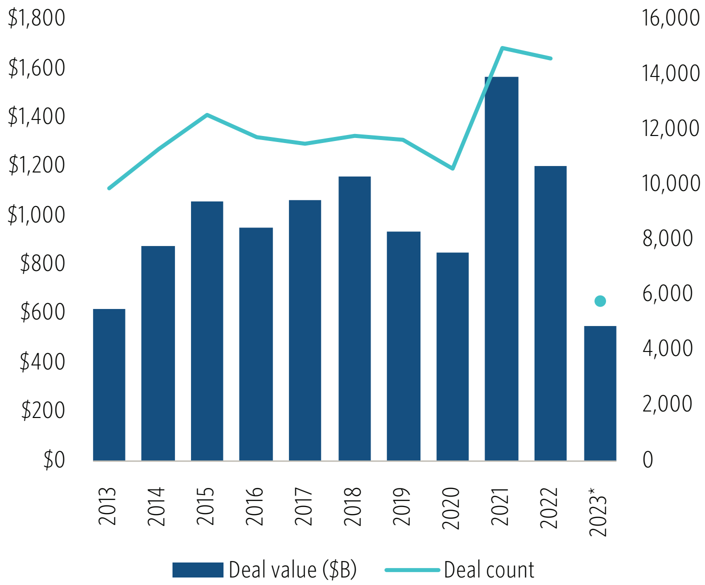
B2B M&A activity by quarter

Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Jinny Choi
Analyst, Private Equity

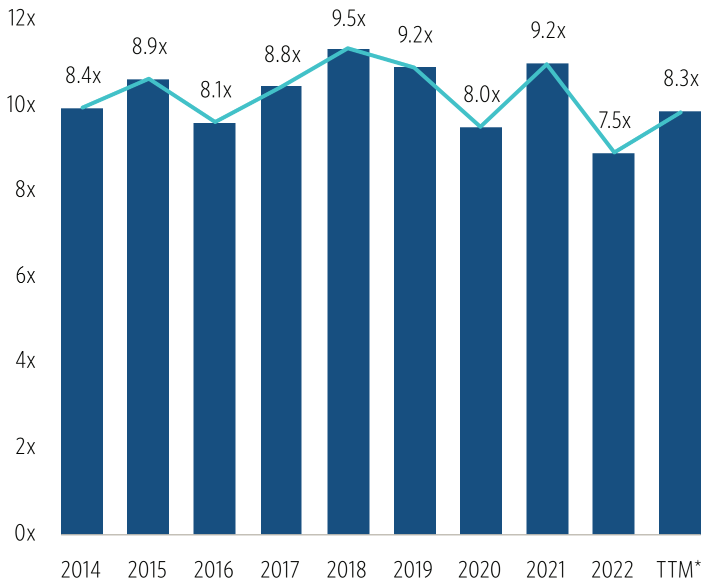
B2B delivers stable but lackluster quarter of M&A activity: B2B was fairly in line with the lower deal activity of the last 12 months. In Q2, an estimated 4,139 deals were announced or closed in the sector for an aggregate of $241.7 billion, which was a year-over-year growth of 11.3% in deal count but 31.0% decline in deal value. The challenging macroeconomic environment is pushing dealmakers to pursue smaller acquisitions, as seen by the drop in both the average and median deal size. YTD, the average deal size declined by 46.0% from the end of 2022 to $137.6 million. With many companies focused on optimizing their businesses rather than building scale, we anticipate more deals driven by capability strengthening and carveouts and divestitures throughout the rest of the year. That is not to say that dealmakers will shun larger transactions. 10 megadeals transpired in Q2 as both corporates and sponsors pursued strategic opportunities across the B2B sector. Bunge's announced $18.0 billion acquisition of agricultural distributor Viterra marked the

B2B M&A activity



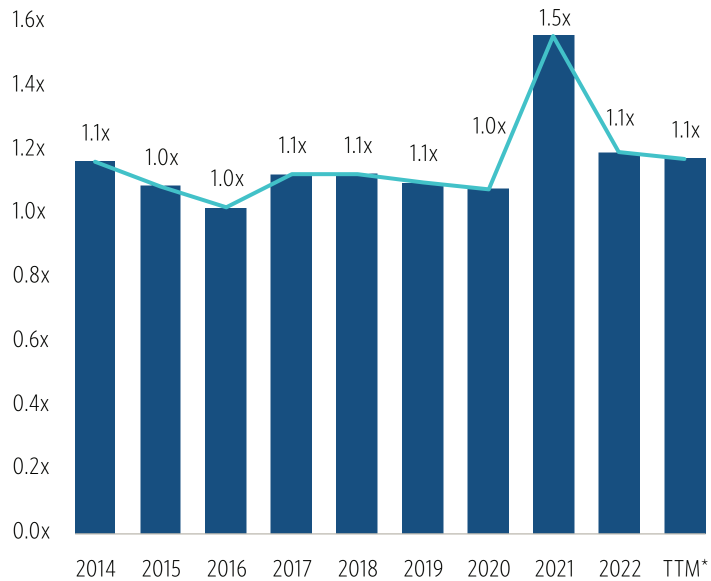
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

B2B M&A EV/EBITDA multiples



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

B2B M&A EV/revenue multiples



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

largest deal in B2B in Q2 and was unprecedented in size in the global agriculture sector. The two companies will merge to create an agricultural trading giant worth around $34 billion. The tie-up is likely to face regulatory scrutiny in numerous countries.

PE sponsors find take-private targets in aerospace manufacturing: In May, Apollo announced it would take aerospace supplier Arconic private for a deal valued at $5.2 billion for a roughly 36% premium to its February closing price.[4] Arconic, which manufactures rolled and plate aluminum, struggled with falling metal prices in 2022, and its stock declined nearly 38%.[5] With manufacturing rebounding from the brunt of supply chain challenges and the aerospace market at the beginning of a cyclical upturn, aluminum is expected to have strong runway for growth, making the acquisition attractive and well-timed for Apollo. In June, KKR announced it would take aerospace and industrials manufacturer CIRCOR International private in a $1.6 billion deal, ending a bidding war with Arcline Investment Management. The deal is expected to close in Q4 following shareholder and regulatory approvals, although KKR is confident that its transaction minimizes antitrust risk. Unlike Arcline, whose funds own a direct competitor of CIRCOR, KKR lacks competitive overlaps, which is particularly important given the current scrutiny around consolidation in the aerospace and defense sector.

4: "Arconic To Be Acquired by Apollo Funds," Arconic, May 4, 2023.
5: "Apollo To Take Aerospace Supplier Arconic Private in $5.2 Billion Deal," Reuters, Pratyush Thakur, May 4, 2023.

A WORD FROM LIBERTY GTS

Tax insurance: Mitigate tax uncertainty with confidence

Kaihui Chong

Senior Tax Underwriter

Kaihui is a senior tax underwriter of Liberty GTS, based in Singapore. Her focus is on tax risks arising across the Asia-Pacific region, including tax implications associated with M&A transactions, restructuring, and other specific transactional tax risks.

The global tax environment continues to be increasingly demanding for businesses to navigate as it experiences significant shifts and reforms. Some key drivers of change include international efforts to combat tax avoidance, challenges posed by the digital economy, public pressure for tax fairness, and the economic repercussions of the COVID-19 pandemic. Governments look to tax collections to fund their borrowing and expenditure for stimulus packages introduced in the past few years.

Businesses face the immediate challenge of reacting to new laws or changes in the interpretation of existing laws and bilateral tax treaties, as well as increased levels of tax controversy. In the context of M&A, tax is increasingly at the forefront of negotiations as parties seek to preserve deal value given the increased instances and intensity of tax audits and the risk of unexpected tax exposure faced by businesses.

On the transaction risk insurance side, the Liberty GTS 2022 Claims Briefing on warranty & indemnity (W&I) insurance noted increasing notifications involving large ($10 million-plus) tax-related issues. Tax issues continue to be the most cited breach type, forming 36% of our notifications for all Asia-Pacific W&I policies bound, 34% in Europe, the Middle East, and Africa, and 17% in the Americas.[6]

How tax liability insurance can help

Standalone tax liability insurance (TLI) policies are bespoke products designed to reduce or eliminate the exposure of identified tax issues by transferring the risk to insurers. While a W&I policy is designed to cover unknown risks in the context of M&A, TLI is used to cover known risks.

TLI policies can cover any type of tax liability, including indirect taxes, customs, and duties. They are not meant to insure aggressive or abusive tax practices, but rather, tax positions that have a degree of ambiguity under the law and practice of a jurisdiction. The insurer's risk appetite is subject to considerations such as the jurisdiction from which the risk arises, commercial background of the tax matter, area of contention, and level of analysis and comfort derived by established tax advisors on the matter. Generally, an insurable tax risk would be one where consensus is that the risk is "low" or "should not" arise.

A common question is, "How is the TLI product useful given that insurers would usually only insure matters for which parties have arrived at a view that the risk 'should not' arise." While TLI primarily covers low-risk tax matters, it can be useful for many reasons:

- Tax laws and regulations are inherently complex. Even low-risk matters can be subject to interpretation disputes. TLI allows taxpayers to de-risk themselves and protect cash flows.
- TLI allows for the transfer of high-severity risks to an insurer. This is particularly useful in an M&A context to avoid seller indemnities, price chips, or escrows. Outside of M&A, companies that want to actively manage the impact of potential tax exposure on their balance sheets would find value in the financial protection and risk management it provides, which contributes to shareholder confidence.
- TLI can help increase comfort on launching a new product or entering a new business. Where there are tax uncertainties capable of analysis based on the legal and factual position at the time of inception, TLI can cover a defined future position or cash flow. This increases the certainty of economics of an investment.
- It offers protection against defense costs. Even when the technical position is strong, if tax authorities pursue the matter, tax disputes can be time-consuming and costly. TLI can help mitigate these expenses.

6: "2022 Claims Briefing," Liberty GTS, n.d., accessed July 1, 2023.

The growth of TLI in the Asia-Pacific region

Asia-Pacific is an interesting region of great diversity, with myriad languages and cultures, varying levels of economic development, and different tax systems that dealmakers and businesses need to consider and accommodate. The tax regimes vary widely, with a mix of semi-territorial and worldwide tax systems, common law—for example, Singapore, Malaysia, and Australia—and civil law systems in areas including Indonesia and Vietnam.

Whilst jurisdictions such as Singapore and Australia have well-established legal systems and reliable tax administrations, some emerging economies are still growing and enhancing their tax systems. For these emerging economies, taxpayers often find themselves dealing with a lack of clarity in the law and regulations and are subject to varying interpretations of the regulations by tax authorities. Any guidance, if available, may not always be comprehensive or readily accessible. This may also be complicated when translated versions of the law, regulations, and practice guidance are used, which can give rise to misinterpretation.

TLI is still in its nascency in the Asia-Pacific region relative to more-developed insurance markets in Europe and the Americas. This is due to insurers having to carefully assess their appetite for insurance given the complex tax landscape discussed above, the economic and political environment of certain countries, and the lack of familiarity with the product prior to 2019 to 2020 in most parts of Asia.

The product has, however, gained traction in the region in the past three to four years as businesses, advisors, and brokers are becoming aware of the product and increasingly familiar with the usage. While the increased presence of specialized regional brokers contributed to the growth in utilization of TLI policies, it is in part organic given that private equity investors and their advisors have seen the usefulness of the W&I product and turned to the TLI product to cover material known tax matters.

Submissions have increased steadily from 2020 through 2022, with requested limits ranging between $1 million to $200 million-plus at Liberty Global Transaction Solutions (GTS). India remains the most-established TLI market in the region and continues to grow from strength to strength, in part due to high M&A activity and the litigious nature of the environment. Notably, the product has also seen significant growth in jurisdictions such as Singapore, Australia, and South Korea thanks to increased market awareness and sophistication of the markets.

We are starting to see more complicated submissions on a multitude of issues, aside from the more commonly identified risks relating to taxes on capital gains or withholding taxes on dividends of interest—contributing to roughly 70% of the submissions received in 2022. An interesting development to watch out for in terms of product development is coverage for transfer pricing risks or risks with a significant valuation component, which insurers have in the past excluded from cover.

Over time, there has also been a significant growth of insurers' geographical coverage in the region, which has historically been limited in Asia. Insurers have worked alongside reliable and experienced local counsel to understand the nuances and practice of different tax systems within the region. As of now, Singapore, Australia, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, South Korea, and Thailand are considered potentially insurable jurisdictions in the region.

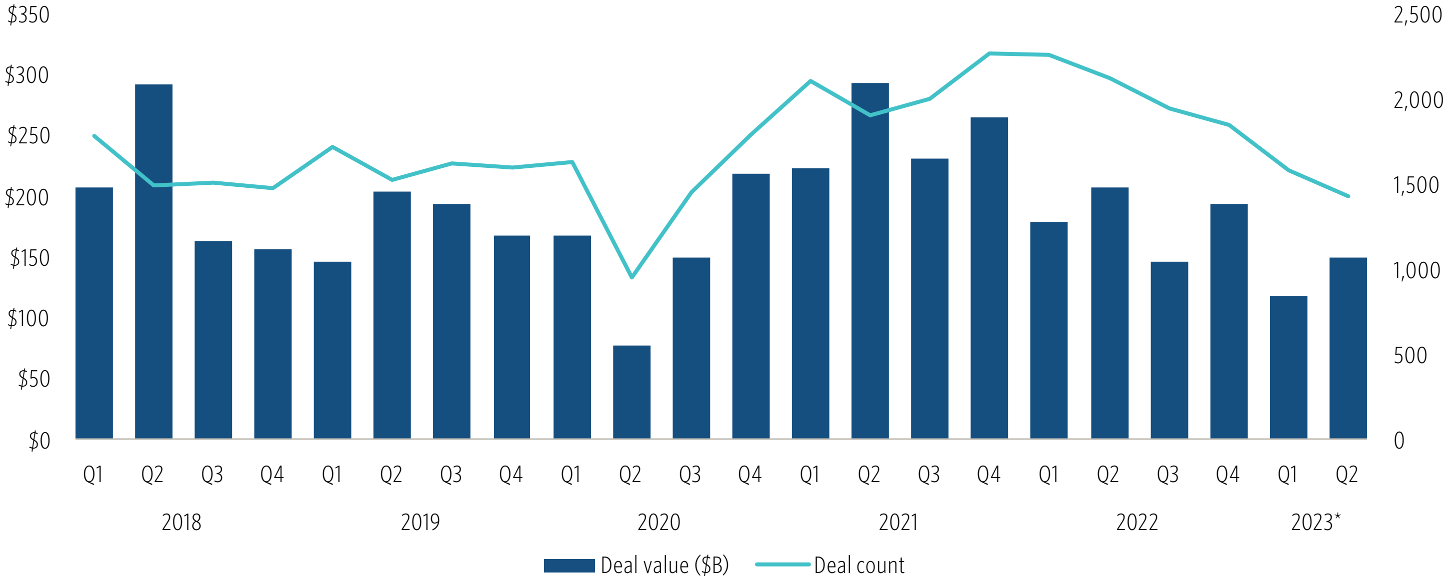
TLI is challenging in some countries given the lack of predictability in the authority approach and insufficient confidence in the assessment and court appeals. We can expect this to evolve over time as an increasing number of developing countries look to modernize their tax sectors in line with global practices. Vietnam, for example, has approved its tax system reform strategy through to 2030.

As TLI activity increases in the region and insurers and their broking partners accumulate experience insuring more varied risks and geographies, there is little doubt that the TLI product will continue to evolve to enhance its value proposition.

We generally still expect interest in the product to move in tandem with M&A activity in the region, where the core demand remains, and dealmakers see the apparent value of TLI to bolster their negotiating power and free up their cash flow. That said, as tax, finance, and risk leaders across industries grapple with increasing responsibilities and the daunting task of managing complex tax risks that may arise across multi-jurisdictional operations or portfolios of companies, TLI could be a valuable tool that leaders use to proactively manage tax risks and allocate resources effectively.

B2C

B2C M&A activity by quarter



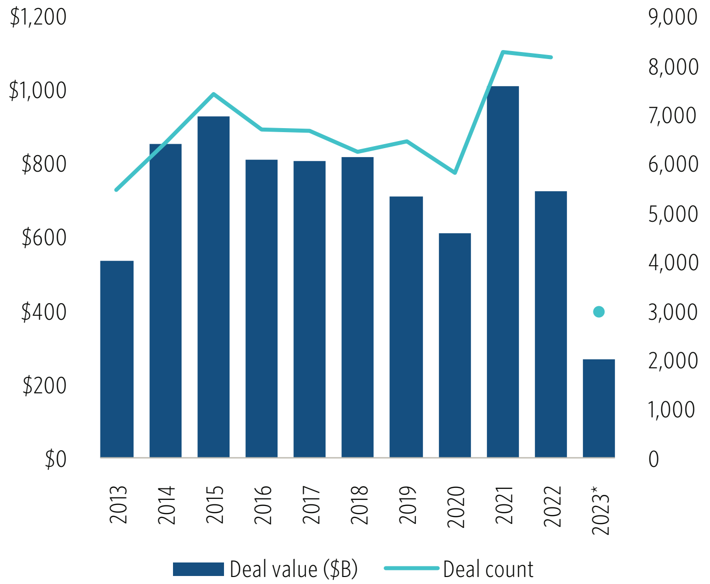
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Garret Hinds
Senior Analyst, Private Equity

B2C M&A value up 26.6% QoQ: Deal activity in the business-to-consumer (B2C) sector recovered in Q2 2023, following a soft Q1, which likely marked the trough. When compared to Q1, Q2 2023 deal value increased by 26.6% QoQ, and deal count increased by 7.3%, as two $5 billion-plus sports & entertainment deals revived the market. While total deal value continues to be soft relative to 2022, down 27.8% YoY in Q2, the total number of deals is gradually improving and increased 4.7% YoY, as 2023's activity shifted downmarket to smaller deals with lower sticker prices.

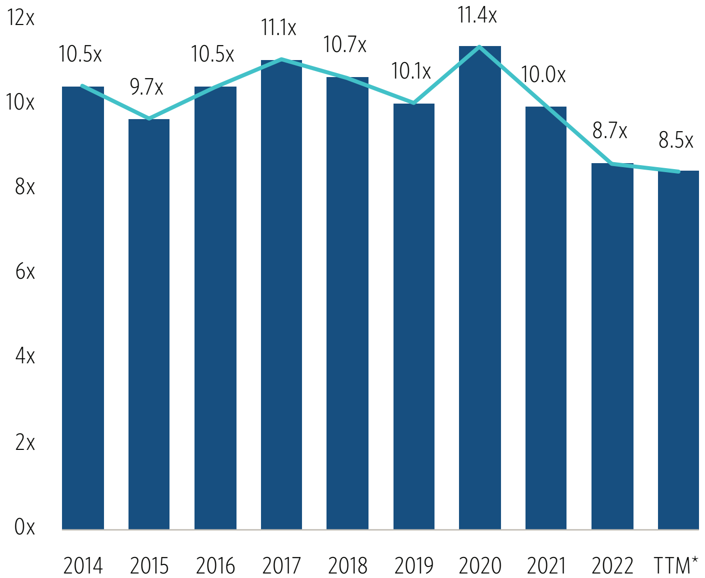
Sports & entertainment deals top the leaderboard: The largest B2C deal in Q2 was World Wrestling Entertainment's all-stock sale for $9.4 billion to combine with Endeavor Group's Ultimate Fighting Championship. They will form a yet-to-be-named NewCo, a pure-play intellectual property (IP) ownership company with complementary brands, reaching over 700 million fans across multiple platforms, according

B2C M&A activity



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

B2C M&A EV/EBITDA multiples



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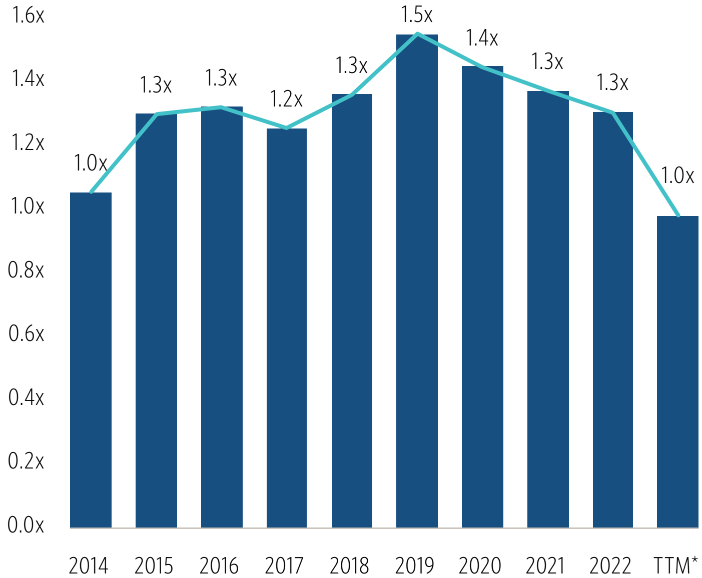
*As of June 30, 2023

B2C M&A EV/revenue multiples



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

to management.[7] Endeavor Group CEO Ari Emmanuel will lead the new venture as CEO. This exemplifies dealmakers finding creative ways to facilitate transactions by utilizing higher levels of equity consideration. If there is a valuation disconnect, an all-equity deal forces both sides to focus on the future value creation potential rather than haggling over the optimal price today. On this path, mutual trust, track records, and experience rise to paramount importance as the companies partner as operators instead of simply getting a loan from a passive lending institution.

The second-largest B2C deal in the quarter was NFL team the Washington Commanders' $6.1 billion sale to the Harris Group. The sale, which was recently approved by NFL owners, will be funded primarily with equity from a group of roughly 20 LPs, according to media reports.[8] The third-largest deal was Japanese automaker Mazda Group's $6.0 billion sale to Bolt Group, a mobility and ride-hailing company based in Estonia.

7: "Endeavor Investor Presentation: WWE & UFC Conference Call," Endeavor, UFC, and WWE, April 2023.
8: "Commanders Sale to Josh Harris Group Nearing NFL Approval," ESPN, John Keim and Stephen Holder, June 7, 2023.

A WORD FROM RBC CAPITAL MARKETS

Innovation and growth: Key ingredients for healthcare M&A

Despite challenging environments during the start of 2023, the healthcare sector is preparing for an upcoming wave of M&A activity.

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Global Head of M&A
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Why have M&A volumes started low in 2023? Are they expected to rise?

Vito Sperduto: Coming into this year, the first half was always likely to be very slow—which is what we're seeing right now. We're about to have M&A volume not seen since Q2 2020, during the pandemic shutdown. 2021 was the best year in history by all measures, but things seem to be stabilizing a bit across the board.

Andrew "Cal" Callaway: On the corporate side, large caps are all well suited to pursue select acquisitions—capital is not an issue for these larger companies. We're seeing them really look at all lists at the moment and think about which targets they want to chase over the next six to 12 months.

Ahmed Attia: The deal chessboard is active. Larger players recognize that their competitors are going to zone in on the same assets. As a result of consolidation, the number of available and actionable quality businesses is lower than what it used to be. In the pharma services sector, we probably had double the number of public companies in the sector four or five years ago.

Are tough financing markets forcing strategic alternatives?

Callaway: On the smaller-cap side, it's a very different story. Select companies do have access to capital, but many don't. Many are running short from a runway perspective. Those companies are thinking long and hard about strategic alternatives—the perfect storm for what looks like a very active second half of the year from an M&A standpoint.

Levin: You've got a situation with tough financing markets for companies. That's changing how people are thinking about what the strategic alternative landscape is for them. There's a shift in the boardroom wherein people are perhaps more realistic about taking an opportunity to capture some real value through an M&A deal.

How are valuations impacting decisions in the healthcare sector?

Levin: One of the things we've seen in life sciences M&A over the last few years is that valuations in biotech become incredibly robust, making it difficult for large-cap buyers to pay the kind of premiums required (usually about 60% to 100% on every trade). The deals usually came down to one buyer with a differentiated view. But, because valuations are coming down, we're seeing more competitive processing again.

Callaway: The good assets are still trading for pretty crazy prices. For the next set of companies whose valuations have compressed a little bit, it will be more difficult for boards and management teams to think about transacting.

Attia: It's a tale of two cities when it comes to valuation. If you have a differentiated business, you have a scaled asset that's de-risked on multiple dimensions (whether that be regulatory or commercial). Those businesses continue to command strong multiples and are commanding premium valuations.

Some of the smaller and more challenged businesses, which face tighter financial constraints, tend to have board dynamics that are willing to accept a lower premium than what would be otherwise required—predominantly because of the macro backdrop.

How is this impacting competition?

Levin: Valuations in biotech were robust, which made it difficult for large-cap buyers to pay the premiums. Often, deals ended up coming down to one buyer who thought the product was the right fit. But now, more competitive processes are returning. Valuations have come down to a level where more buyers can make the numbers work.

Are you seeing more sizable transactions being considered?

Callaway: It depends on the size of the potential acquirer. Large-cap companies tend to look for baskets of products, whereas in the mid-cap universe, companies are looking to scale. Thus, often, they are looking at situations where the merger is of equal type transactions.

Levin: When you look back to the beginning of the year, multiple deals that were north of one billion dollars were getting done by mid-cap pharma players. In our dialogue with those clients, they are looking to do really big deals—even things that are 50% of their size. But there's also interest in doing some meaningful M&A in the mid-cap space. So the pockets of demand for transactions of both sides are quite strong right now.

Where have you seen the most activity across the various subsectors in healthcare?

Attia: We've seen an increase in activity in medtech. Many are thinking about the next frontier—particularly related to software and digital platforms—so the sector is ready for more activity as a result of new opportunities.

Finally, what are some of the key drivers behind M&A activity in the sector?

Attia: The pillars driving M&A include the need to accelerate top-line growth. Growth is still a key driver for large-cap players. And fundamentally, the market has been rewarding businesses that are excelling in that regard.

Larger players in the space also have a heightened focus on building scale. M&A deals between strong businesses that give differentiated capabilities continue to drive focus in pharma services.

We are bullish that the pharma services space will continue being highly active. We've seen a lot of investments made by financial sponsors over the last few years.

For our latest perspectives on M&A trends impacting global markets, go to rbccm.com/strategicalternatives

PitchBook

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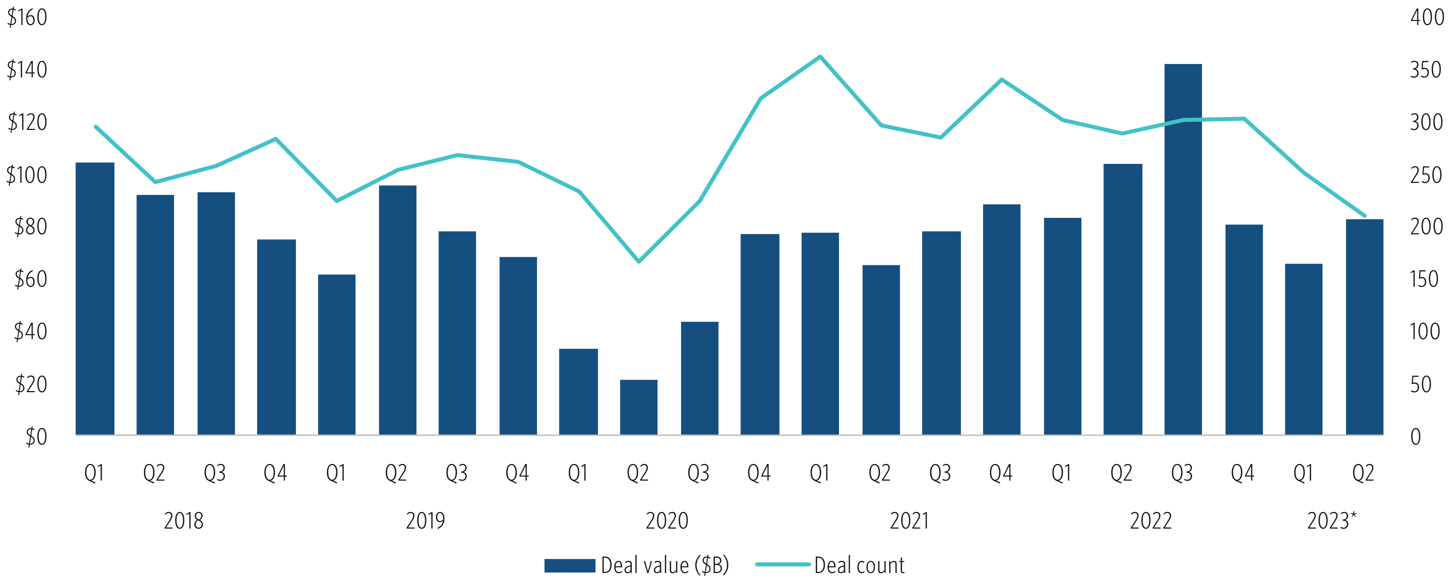
Energy

Energy M&A activity by quarter



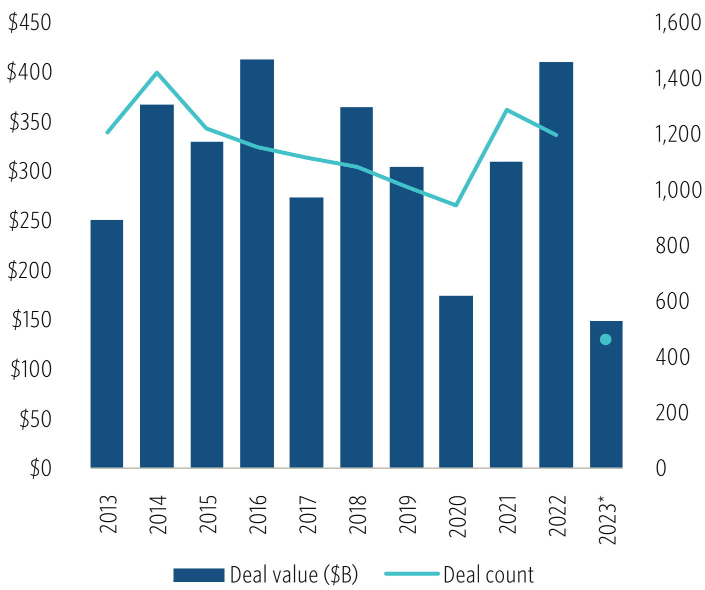
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Kyle Walters
Associate Analyst, Private Equity

Energy M&A a mixed bag through H1: After a soft Q1, deal value jumped by 26.2% in Q2, supported by 14 deals of $1 billion or more. Despite this bump in multibillion-dollar deals, the median deal size for the sector sunk to $41.1 million through the first six months of the year, the lowest figure since the $36.1 million median deal size posted in 2009. Deal count has been relatively steady and rose by more than 10% year-over-year.

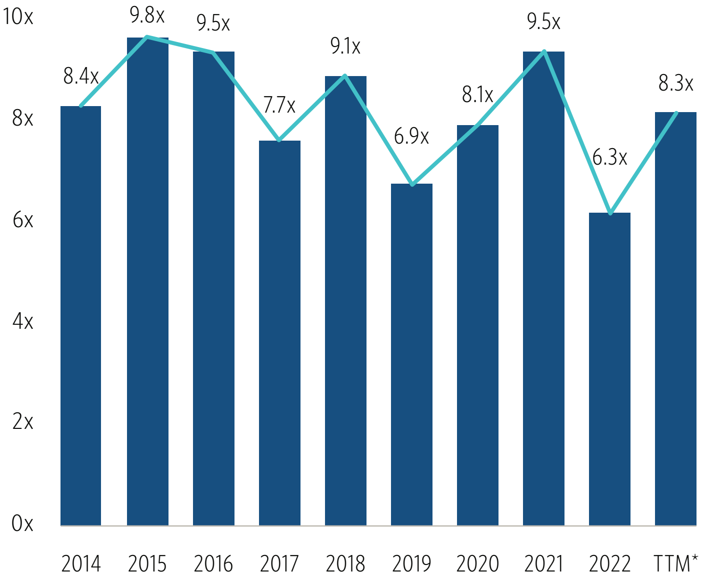
Oil & gas M&A dominates the space in Q2: The four largest deals of the quarter, worth a combined $35.9 billion, took place in the oil & gas vertical. As mentioned above, in May, ONEOK acquired Magellan Midstream Partners for $18.8 billion. The deal is expected to achieve immediate financial benefits, including cost and operational synergies. The merger would create the fourth-largest US midstream company with a combined enterprise value of $60.0 billion and an initial

Energy M&A activity



Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Energy M&A EV/EBITDA multiples



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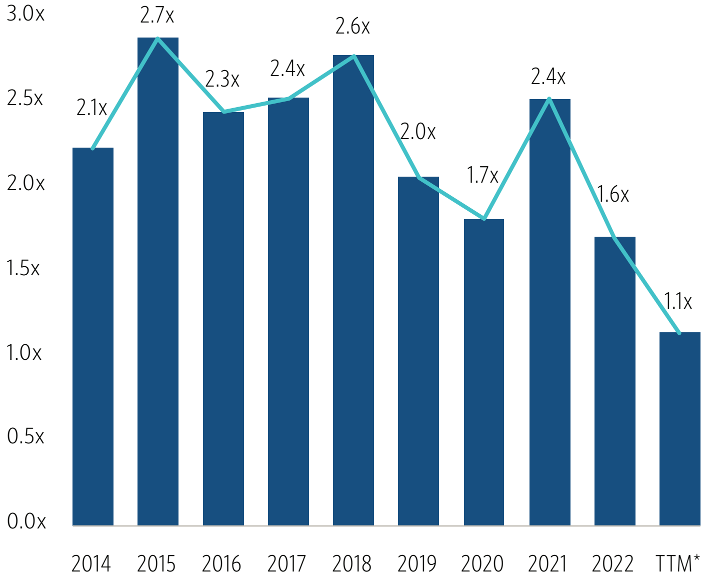
*As of June 30, 2023

Energy M&A EV/revenue multiples



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*As of June 30, 2023

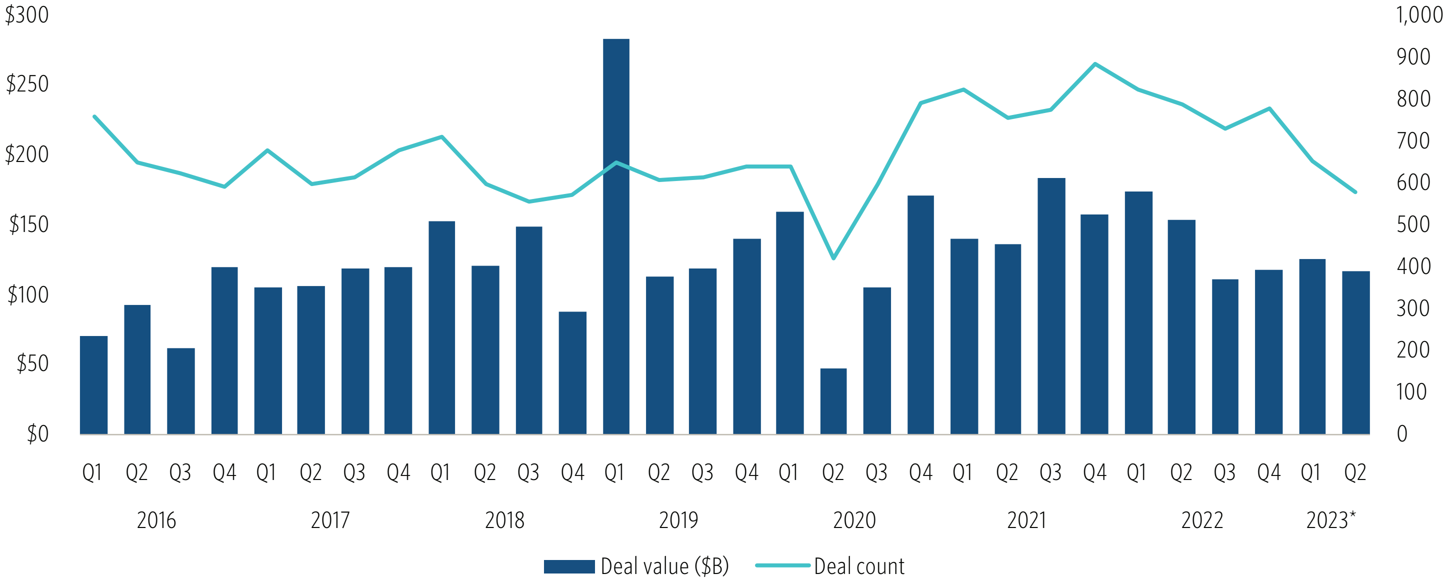
yearly EBITDA of $6.0 billion.[9] In June, Italian energy group Eni purchased Neptune Energy from Carlyle and CVC Capital Partners for $4.9 billion in a deal that is one of the largest oil & gas deals in Europe in years. Eni is expected to benefit from Neptune's robust gas reserves as it works toward increasing its share of gas production to 60% of its portfolio as part of its plans to achieve net-zero by 2030.[10]

The push for energy transition drives deals: Across the globe, the push for energy transition continues to create M&A opportunities for companies seeking to meet energy initiatives and incentives. In May, Japanese energy firms NTT and JERA acquired Tokyo-based Green Power Investment for $2.2 billion in one of the country's largest-ever deals for a renewable energy company. The merger will allow the three companies to further enhance onshore and offshore wind power generation in Japan.[11] The deal comes amid rising expectations in Japan for the use of renewable energy toward a carbon-neutral society by 2050.

9: "Magellan Midstream Is Merging And Others Will Follow," Forbes, Roger Conrad and Great Speculations, May 22, 2023.
10: "Eni Sees Synergies of up to $1 Billion From Neptune Acquisition," Reuters, Francesca Landini and Ron Bousso, June 23, 2023.
11: "NTT Anode Energy and JERA to Acquire Green Power Investment," JERA, May 18, 2023.

Financial services

Financial services M&A activity by quarter



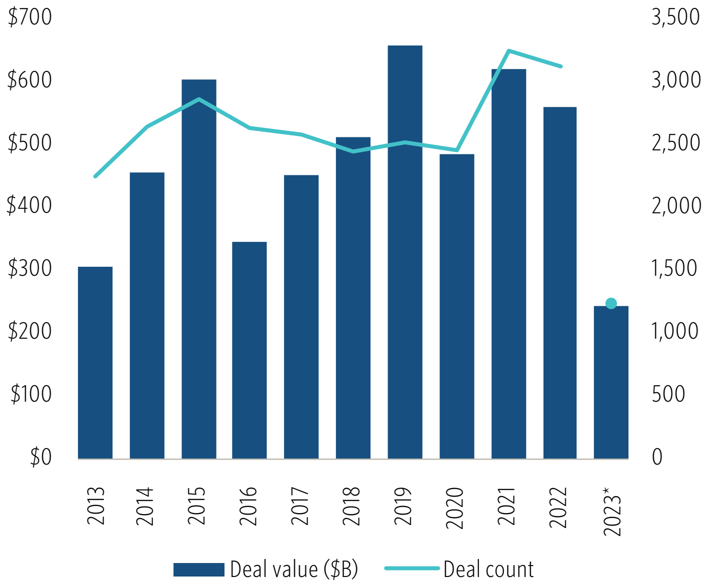
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Kyle Walters
Associate Analyst, Private Equity

More deals close for smaller sizes: Financial services was the only sector to record both QoQ and YoY growth in deal count. However, like other sectors, its deal value has consistently trended down, reflecting a pickup in consolidation activity at smaller sizes. Many of these smaller deals came in the form of divestitures, as industry participants trade assets with each other due to capital and/or regulatory restraints or offload to nontraditional players seeking to gain entry. For example, IGM Financial divested Investment Planning Counsel, an independent wealth management firm, to Canada Life for $575.0 million. The deal allows Canada Life to accelerate its vision of establishing a leading wealth management platform for independent advisors and their clients.

Uncertainty in the banking sector continues: While the damage in the banking sector was focused in the first quarter, the knock-on effects continued in the second quarter. In May, J.P. Morgan announced the acquisition of First Republic Bank from the FDIC for $10.6 billion. This follows the FDIC taking over First Republic, making it the third major bank to go under in less than two months, following the collapse of SVB and Signature Bank. The acquisition advances J.P. Morgan's wealth

Financial services M&A activity



Source: PitchBook • **Geography:** Global
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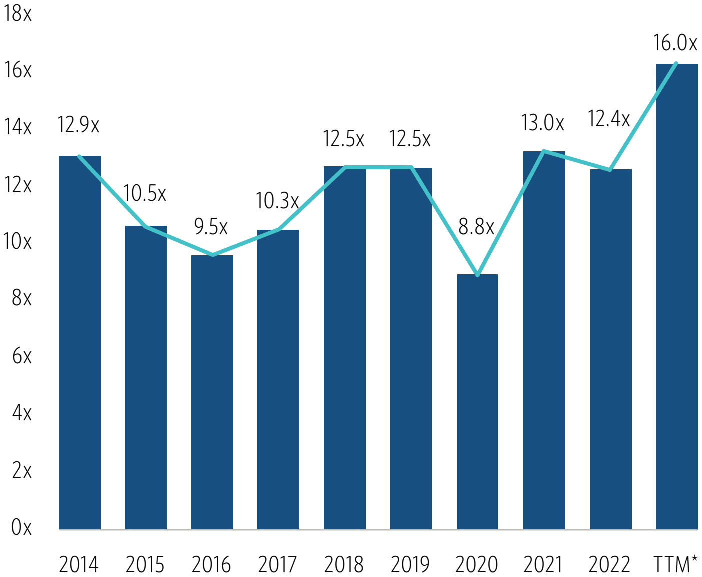
Financial services M&A EV/EBITDA multiples



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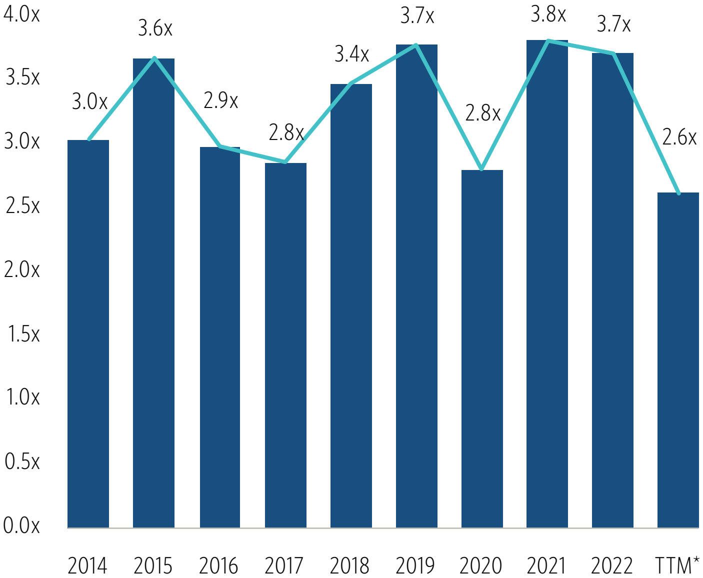
Financial services M&A EV/revenue multiples



Source: PitchBook • **Geography:** North America and Europe
*As of June 30, 2023

strategy, complements its existing franchise, and helps to provide stability to the recently turbulent banking industry.

The insurance industry garners interest: The insurance industry saw notable activity in Q2 as sellers continued to prioritize core assets, while buyers looked to expand platforms to drive value for clients and other stakeholders. For example, insurer RenaisanceRe Holdings bought AIG's treaty reinsurance business, which includes Validus Reinsurance and its subsidiaries, for $3.0 billion. The deal simplifies AIG's business model while providing additional scale for RenaissaneRe.[12] In May, HDI International, a subsidiary of Talanx AG, acquired select Liberty Mutual Insurance businesses in Brazil, Chile, Colombia, and Ecuador for $1.5 billion. The agreement makes HDI a top-three player in Latin America in the property & casualty insurance market. For Liberty Mutual, the deal allows the firm to increase operational focus across its channels, products, and markets.[13]

12: "RenaissanceRe Holdings Ltd. Advances Strategy with $2.985 Billion Acquisition of Validus Re," BusinessWire, May 22, 2023.
13: "Talanx Becomes One of The Top Insurers in Latin America Through Acquisition of Companies From Liberty Mutual," Liberty Mutual, May 27, 2023.

Healthcare

Healthcare M&A activity by quarter

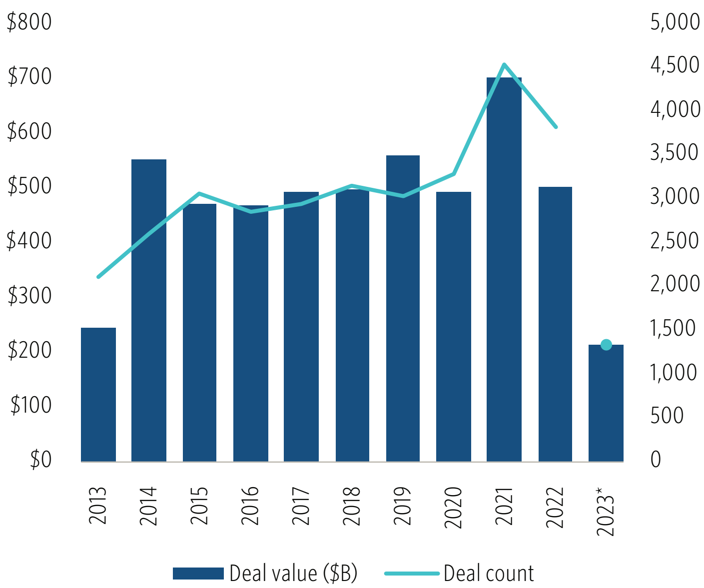
Source: PitchBook • Geography: Global
*As of June 30, 2023

Aaron DeGagne, CFA
Analyst, Emerging Technology

Healthcare deal flow lags again in Q2: Healthcare deal count declined on a sequential basis, with the number of deals down 19.6%, and sector deal value dropped 24.2%, although deal count is expected to have only declined 4.1% as more deals are recorded. Though there were several high-profile deals in life sciences, the digital health sector saw more limited M&A activity from a combination of factors, including acquirer cost-cutting, antitrust scrutiny, and ongoing discrepancies between buyer and seller expectations. There remains overhang from the COVID-19 pandemic, with labor challenges and delayed preventive care driving up costs in healthcare services, while inflation continues to be a meaningful headwind. Healthcare deal activity in Q2 was down sequentially and also declined year-over-year by 15% to 20%, the weakest of any sector.

Biotech & pharma see brisk dealmaking: Of the 14 deals above $1.0 billion in the quarter, 10 of those were in the biotech & pharma sector, led by Merck's acquisition of Prometheus. Biotech companies tend to have higher risk profiles due to their reliance on drug development and clinical trials, making them attractive targets for long-term

Healthcare M&A activity



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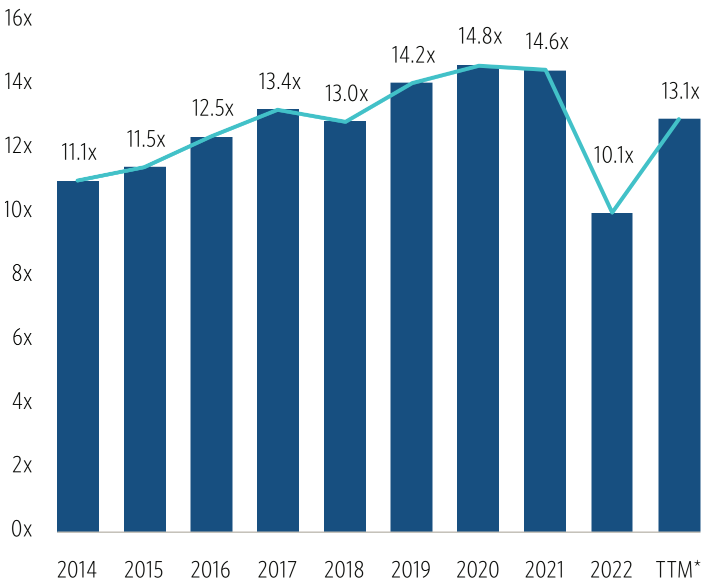
Healthcare M&A EV/EBITDA multiples



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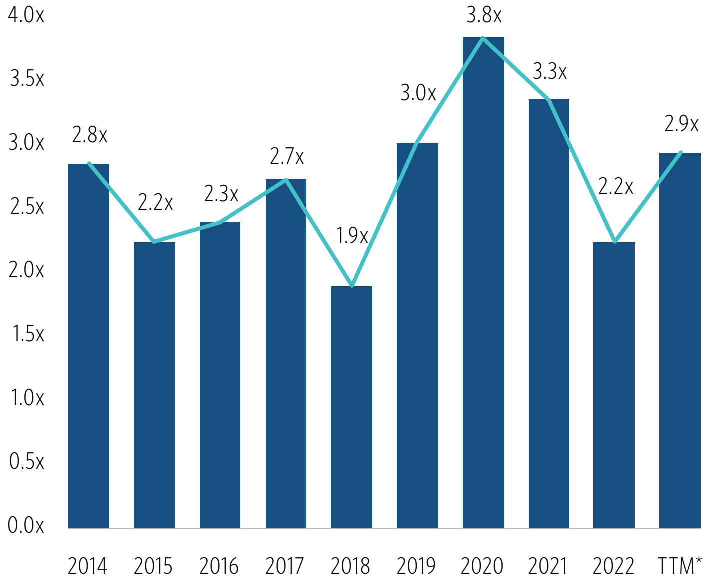
Healthcare M&A EV/revenue multiples



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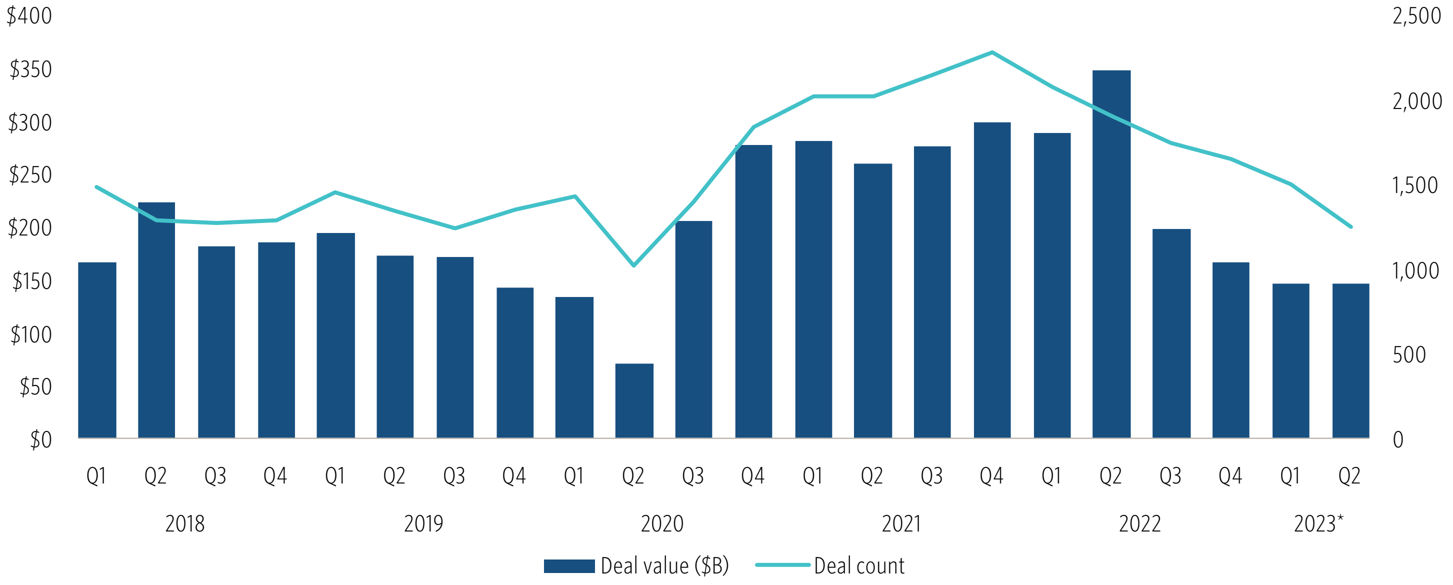
*As of June 30, 2023

strategic buyers that can assume this risk while assembling a drug pipeline with strong upside. Depressed public equity valuations can provide an opportunity for both well-capitalized public firms and private equity to purchase undervalued businesses. Over the past year, divestitures have also fueled transactions in biotech & pharma. Recently, Baxter BioPharma Solutions, a division of Baxter International, was sold to private equity firms Advent International and Warburg Pincus.

Medtech M&A shows signs of life: Though medtech traditionally is a sector with a high proportion of mergers and acquisitions, the number of notable deals has been unusually light in recent quarters due to economic uncertainty and a greater focus on cost-cutting over growth-related capital allocation. Activity has picked up in recent months, however, with Quest Diagnostics' $450.0 million acquisition of liquid biopsy maker Haystack Oncology ($150.0 million of which is a contingent payout) and Medtronic's $738.0 million purchase of insulin patch maker EOFlow. Medtronic has been under some investor pressure as the company works through greater competition in diabetes, and the firm could be aiming to refresh its innovation portfolio. Medtronic, along with Johnson & Johnson, has also been linked to a potential acquisition of cardiovascular device maker Shockwave Medical. Now that major incumbents have worked through their numerous spin-off and spin-out plans, M&A will likely see greater momentum as incumbents use accumulated capital for growth plans.

IT

IT M&A activity by quarter



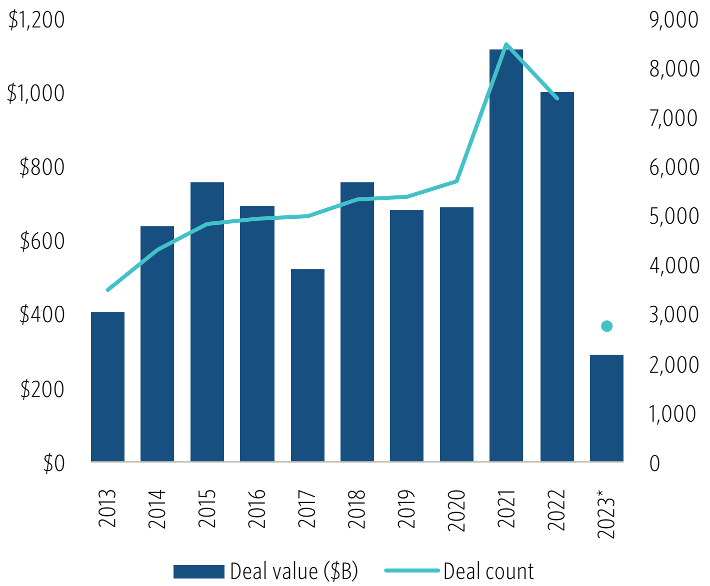
Source: PitchBook • **Geography:** Global
*As of June 30, 2023

Garrett Hinds
Senior Analyst, Private Equity

Tech sets up for a rebound: Technology deal activity in Q2 2023 was basically flat when compared with Q1. Q2 2023 likely marks the trough for tech M&A, and we see an encouraging setup for a rebound moving into year-end. Digging into the numbers, Q2 had an estimated 1,951 deals that were announced or closed, summing to $146.4 billion. When compared to Q1, deal count fell 0.9% QoQ, while deal value increased slightly, at 0.2%. Comparing deal value to prior periods, the Q2 figure represents a 34.2% decline when compared to 2022 and a 10.5% decline when compared to pre-pandemic averages.

Corporate buyers step up: The key factors likely to drive the rebound in H2 2023 are corporate buyers stepping up, gradually improving credit availability, and better alignment of valuation expectations. Even if financing large deals continues to be challenging, corporate buyers are stepping up while other buyers are sidelined, as exemplified by the two largest deals of Q2 going to corporate buyers. As banks continue to increase lending for deals and LBOs, Software companies will likely be preferred by underwriting committees because of

IT M&A activity



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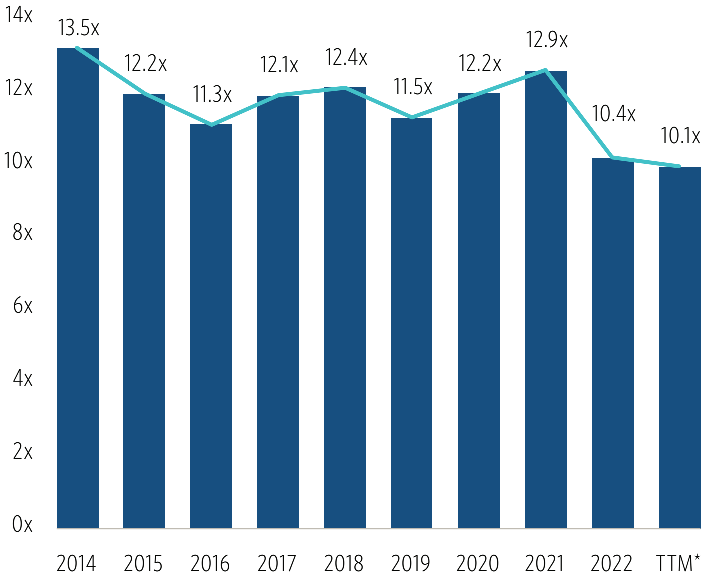
IT M&A EV/EBITDA multiples



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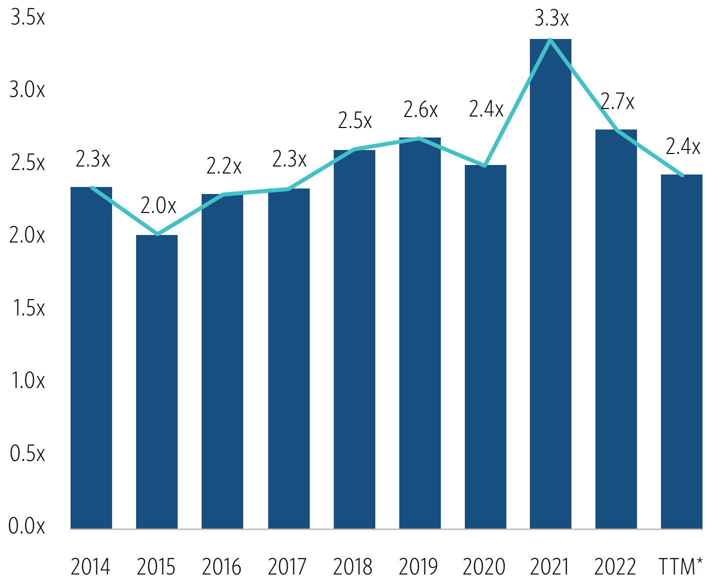
IT M&A EV/revenue multiples



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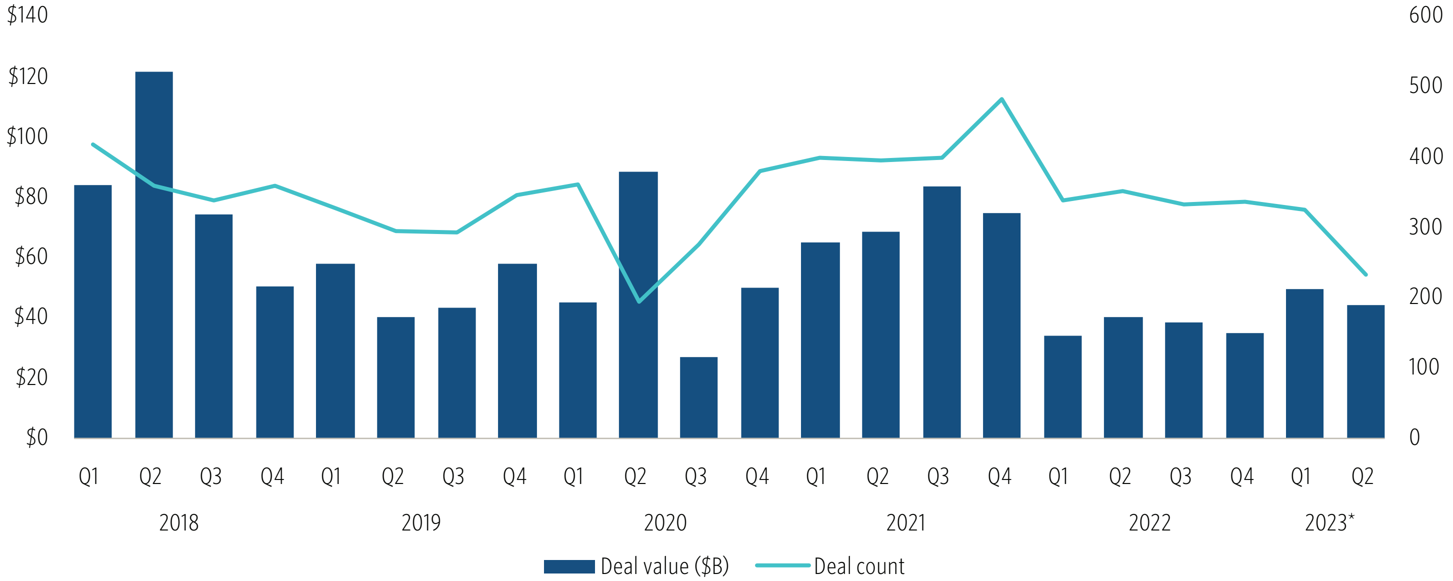
a favorable business model with recurring revenue, a strong value-creating record with PE owners, and deep competitive moats. And with over a year in the books since the Federal Reserve (Fed) hikes began and the prospect for a moderation of interest rate volatility, we expect better conditions for buyer and seller valuation expectations to converge.

Limited financing, few megadeals: While tech was the poster child for large deals with copious leverage in 2022, 2023 is shaping up to be very different. The tight financing equates to a dearth of megadeals. Looking at H1 2023, the top 10 deals so far combined to $63.6 billion, well below H1 2022 at $258.3 billion, which included VMware at $70.4 billion, Twitter at $44.0 billion, and the rest of the top-10 deal leaderboard all over $3 billion.

Several large deals were announced at quarter's end, including Thoma Bravo selling Adenza to Nasdaq for $10.5 billion in a mix of cash and stock. Emerson Electric will acquire National Instruments for $8.2 billion as it expands its industrial automation capabilities. Japanese Investment Corporation, backed with sovereign funding, will acquire JSR, a maker of application-specific semiconductors, with an aim to consolidate its lead in foundational semiconductor manufacturing technologies. Compass Datacenters, a developer of datacenters, will be sold for $5.5 billion to a consortium of Ontario Teachers' Pension Plan and Brookfield Infrastructure Partners. Additionally, Vista Equity Partners announced it will sell Apptio to IBM for $4.6 billion in an all-cash deal as IBM seeks to increase its portfolio of hybrid cloud and automation tools. Notably, IBM has long-term debt at attractive rates and a strong balance sheet, making it uniquely positioned to capitalize on these challenging market conditions.

Materials & resources

Materials & resources M&A activity by quarter



Source: PitchBook • **Geography:** Global
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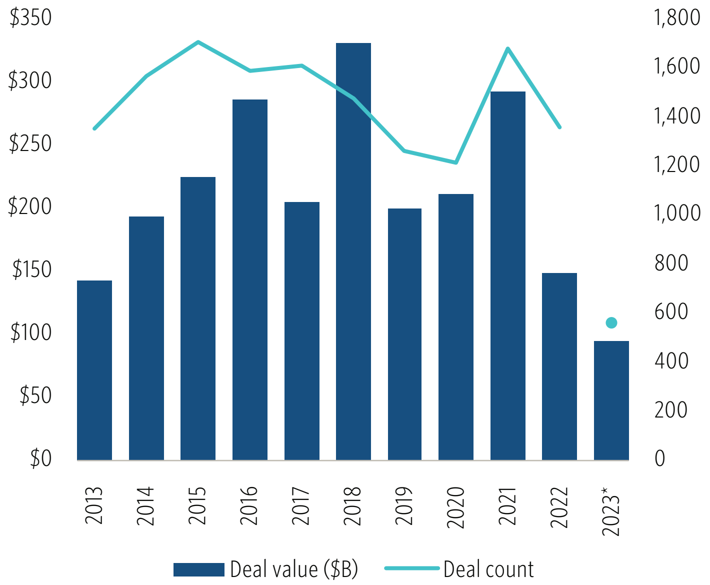
Kyle Walters
Associate Analyst, Private Equity

Materials & resources M&A activity remains subdued: The sector recorded weak volumes in quarter, down by double digits in both dollar value and count versus Q1 as it remained out of favor with investors. The cyclicality of the industry is out of step with the defensive mindset of investors and buyers, especially ahead of a potential recession. The need for critical minerals and metals drove the deals that did get done. However, volatility and lower commodity prices have persisted, leaving many potential buyers on the sidelines.

The metals industry sees sustained activity: Two of the largest deals of the quarter in the materials & resources industry belong to the metals industry—and more specifically, the copper industry. In May, Australian mining company BHP secured clearances from Australia's federal court and approval from its shareholders for its acquisition of OZ Minerals for $6.4 billion. The acquisition strengthens BHP's portfolio in copper and nickel and aligns with its strategy to meet the increasing demand for the critical minerals needed

Materials & resources M&A activity



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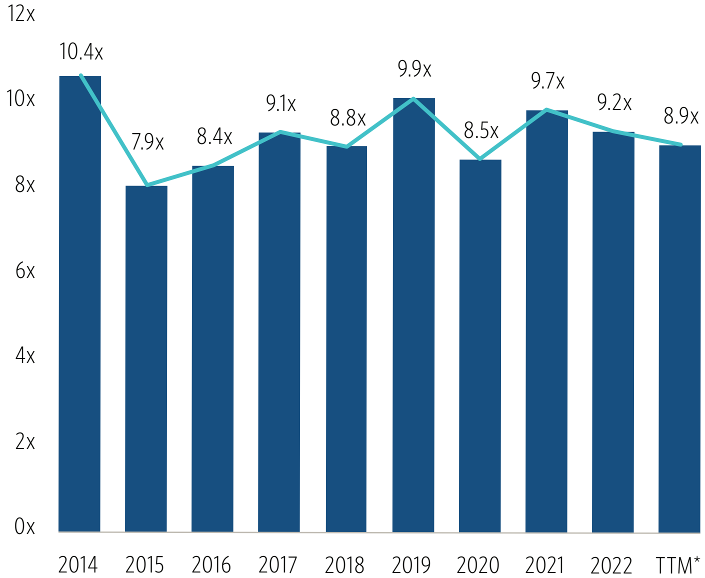
Materials & resources M&A EV/EBITDA multiples



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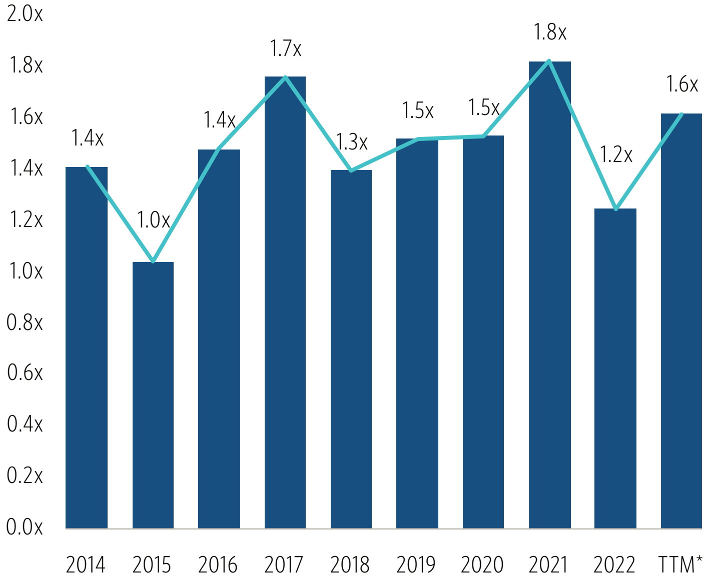
Materials & resources M&A EV/revenue multiples



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for electric vehicles and other energy transition sources.[14] In June, Hudbay Minerals closed on its acquisition of Copper Mountain Mining Corporation for $439.0 million. The deal creates an Americas-focused copper mining company that will boost operating efficiencies and corporate synergies.[15]

Freight & shipping a bright spot for the sector: The freight transport industry was responsible for the sector's lone take-private in Q2. In April, Brookfield Infrastructure entered into an agreement to acquire Triton International, the world's largest owner and lessor of intermodal freight containers, in a $4.7 billion take-private transaction. The transaction provides Brookfield with a platform for growth in the transportation & logistics sector.[16] Elsewhere in the sector, DuPont acquired Spectrum Plastics Group, an advanced manufacturer of specialty medical components, for $1.75 billion. The acquisition strengthens DuPont's position in fast-growing, low-cyclicality healthcare commodity and component markets.[17]

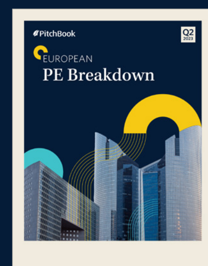
14: "BHP Closes $6.4bn Buyout of OZ Minerals," Mining Technology, May 2, 2023.
15: "Hudbay Completes Acquisition of Copper Mountain to Create a Premier Americas-Focused Copper Producer," GlobeNewswire, Hudbay, June 20, 2023.
16: "Triton International to be Acquired by Brookfield Infrastructure in a $13.3 Billion Take-Private Transaction," Brookfield, April 12, 2023.
17: "DuPont to Acquire Spectrum Plastics Group From AEA Investors," Cision PR Newswire, DuPont, May 2, 2023.

Additional research

Private markets

Q2 2023 US PE Breakdown

Download the report here



Q2 2023 European PE Breakdown

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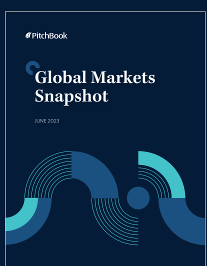

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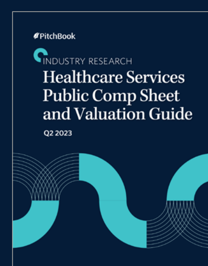

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