Q3 2022

# GLOBAL M&A Report

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PitchBook

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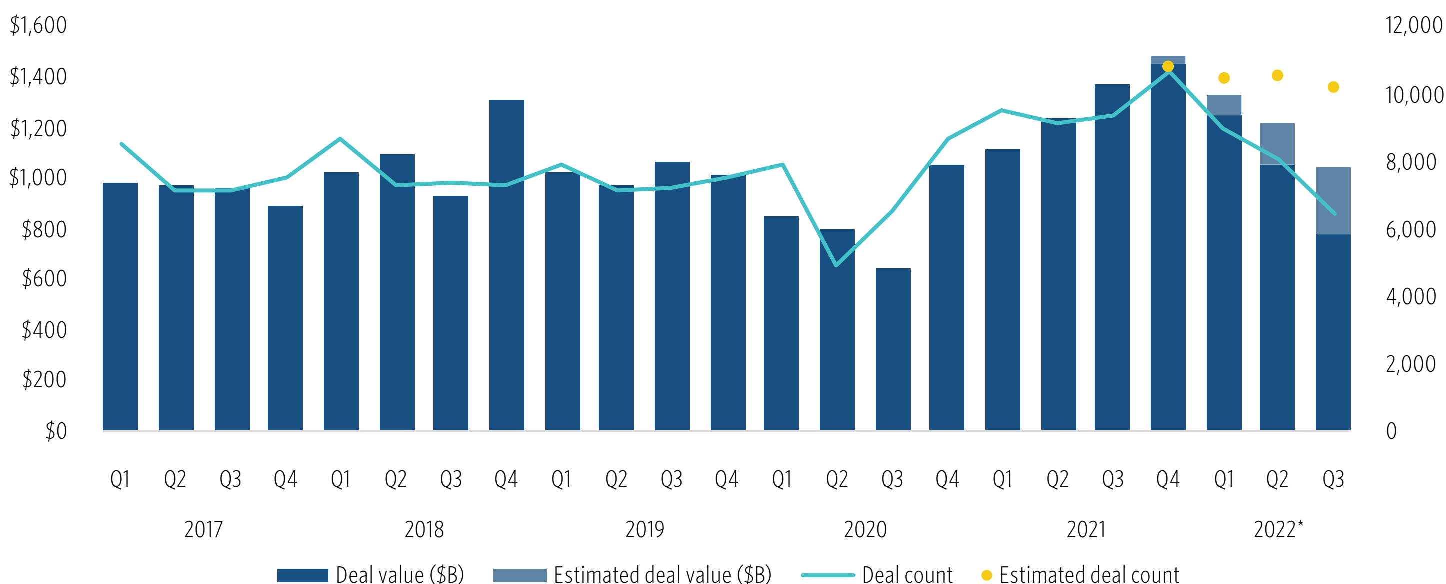
# Global M&A

## Global M&A activity by quarter




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

**Jinny Choi**
Analyst, Private Equity

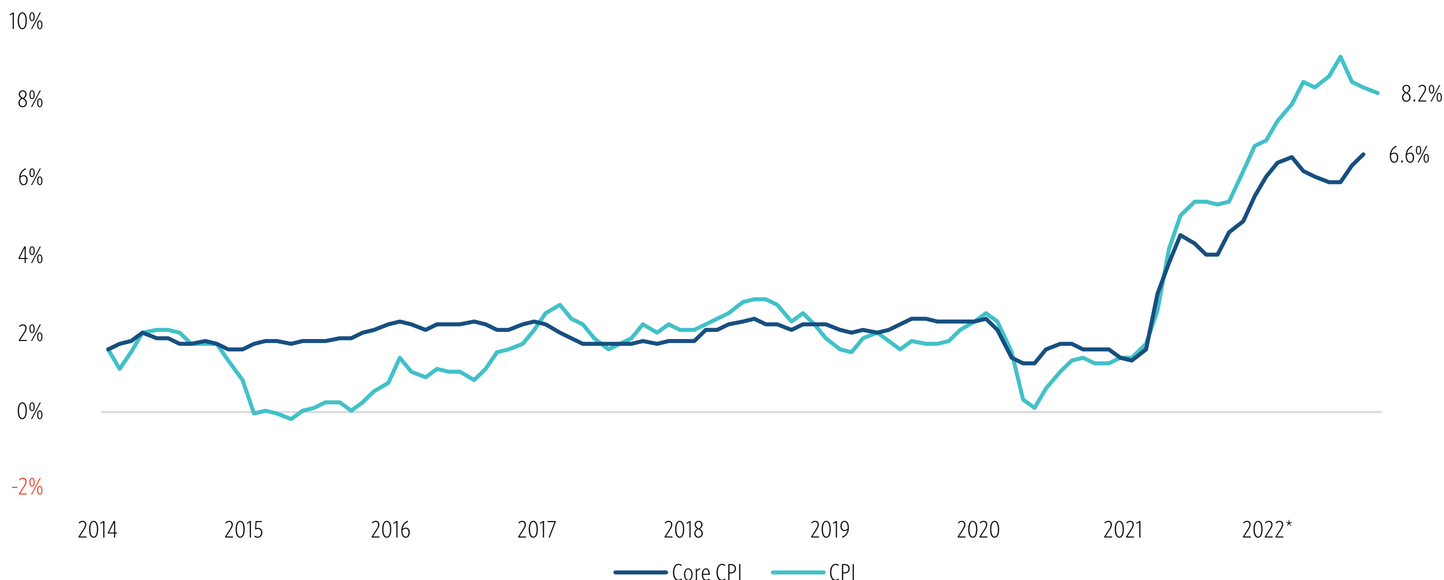
Global M&A activity continued to decline for the third consecutive quarter, falling 29.8% in deal value from the peak seen in Q4 2021. The $1.0 trillion of deal value in Q3 is a correction from last year's frenzied deal activity. Still, it is on track to surpass the pace of deals set prior to the COVID-19 pandemic. Deal count is a similar story; 10,118 global M&A deals are estimated for Q3, which is nearly a third higher than the quarterly average for 2015 to 2019. However, announcements are more of a lead indicator. On that basis, cracks are beginning to show. Compared with Q2, Q3 announcements slowed both in terms of deal count and deal value by 7.4% and 26.3%, respectively.

It has indeed been a challenging quarter for M&A activity. In September, the US Federal Reserve (Fed) raised interest rates for the fifth time this year, as inflation continued to run near its highest levels since the 1980s. The third interest rate hike of 75 basis points so far this year caused more ripples in the stock markets. Increased interest rates led to expectations of lower economic growth, as future earnings of companies are discounted at higher rates and decline as a result. This is especially true for growth-oriented companies, such as those in tech and healthcare sectors, that have enjoyed premium multiples in recent years. Stocks tumbled as valuations adjusted across sectors, and M&A activity slowed as investors paused to reassess potential acquisition targets. Ongoing public stock market volatility flushed potential sellers out of the market, and those who are left are dealing with lower valuations. With the futures market currently pricing in a terminal Fed Funds rate of 4.8% in March of 2023, we can expect M&A activity to remain muted for the next few quarters.

In Europe, investors are bracing for stronger headwinds. Soaring consumer prices hit a double-digit record in September, causing European Central Bank policy makers to rally around a second consecutive interest rate hike of 75 basis points, even with expectations of economic activity slowing substantially.[1] Energy was a major source of inflation, and Europe continues to grapple with an energy crisis and disrupted supplies caused by Russia's invasion of Ukraine;

1: "ECB Officials Lay Foundation for Significant October Rate Hike," *Bloomberg*, Carolynn Look, September 30, 2022.

## Headline and core inflation




**Source:** FRED, Bureau of Labor Statistics | **Geography:** US, EU
*As of September 30, 2022

the problem is expected to worsen in Q4 as winter drives up energy usage. The deteriorating economic outlook in Europe has driven the euro and pound to record lows. Many attribute the euro falling below parity with the dollar to aggressive interest rate hikes by the Fed—higher interest returns in the US are attracting investors away from euros into dollar-denominated investments—but the weaker euro could in turn attract US investors to Europe for greater purchasing power.

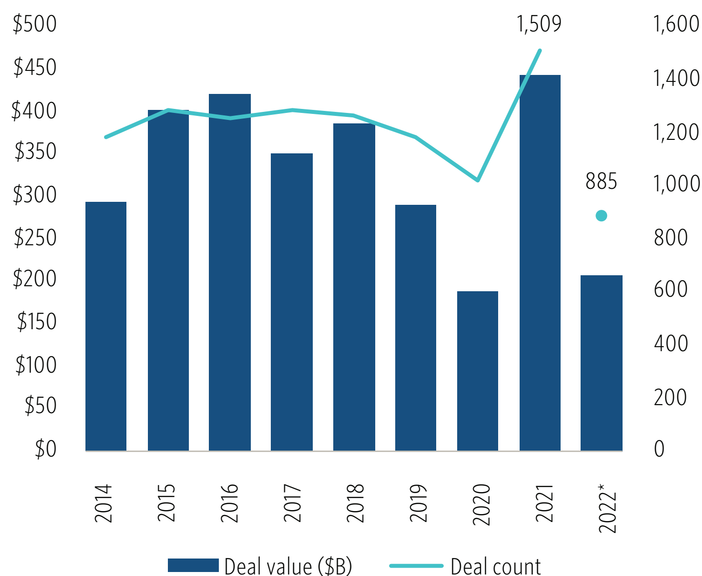
Rising interest rates also prove to be a challenge for deal financing. In particular, PE firms are now faced with a higher cost of capital for leveraged buyouts (LBOs) and are having to increase their equity portion to keep interest costs in check. Although valuations have come down, deal activity has declined as a result, especially as seller-buyer valuation disconnect persists. Uncertain market sentiment further complicates matters, dampening interest for leveraged financing despite higher yields. The painful financing process for Vista Equity Partners and Elliott Investment Management's buyout of Citrix Systems made headlines this quarter as banks struggled to offload $8.5 billion of junk-rated debt. Banks had to offer deep discounts to the levels that the banks had underwritten the debt and ended up with a $700 million loss.[2]

The Citrix debt sale casts doubts on other LBO debt sitting on banks' books, estimated at $80 billion.[3]

Despite increasing fears of a recession and multiple headwinds in the macroeconomic environment, fundamentals still exits for healthy M&A activity. PE investors are still well-equipped with $1.2 trillion in dry powder to execute deals, and large businesses with strong cash flows and balance sheets have not shied away from strategic acquisitions. In September, Adobe announced the $20 billion acquisition of Figma, a collaborative design web application, which marked Q3's largest announced deal and Adobe's largest acquisition to date. The new asset will expand Adobe's product portfolio and accelerate its vision for, and market position in, collaborative creativity on the web. Financial services and energy saw increased M&A value in 2022 as long-term secular trends in the sectors continued to drive capital into attractive assets, and recent strength in energy prices brought renewed attention to the sector. While deals can slow down further as investors become conservative in the current market downturn, M&A activity remains strong and comparable to historic levels, which is especially notable during this time of intense volatility.

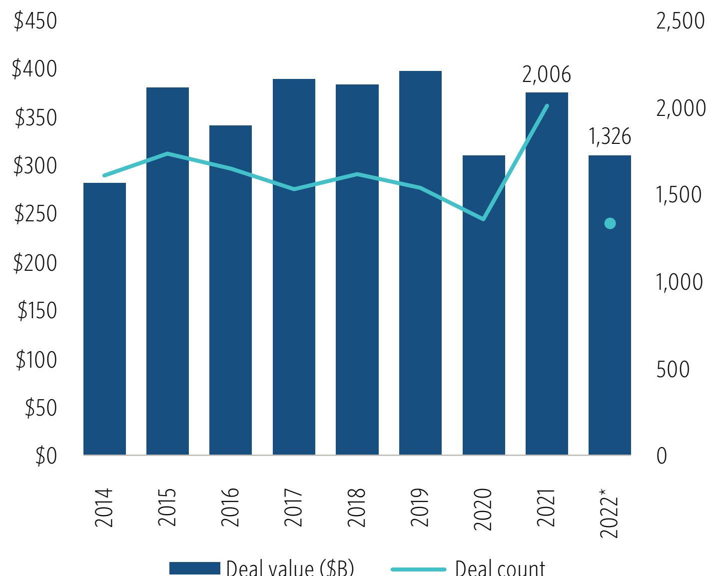
2: "Banks Close Painful Citrix Debt Chapter with $700 Mln Loss – Source," *Reuters*, Abigail Summerville and Matt Tracy, September 21, 2022.
3: "Wall Street Banks Rush to Sell Leveraged Buyout Debt as Deals Close," *Bloomberg*, Jill R. Shah, July 13, 2022.

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



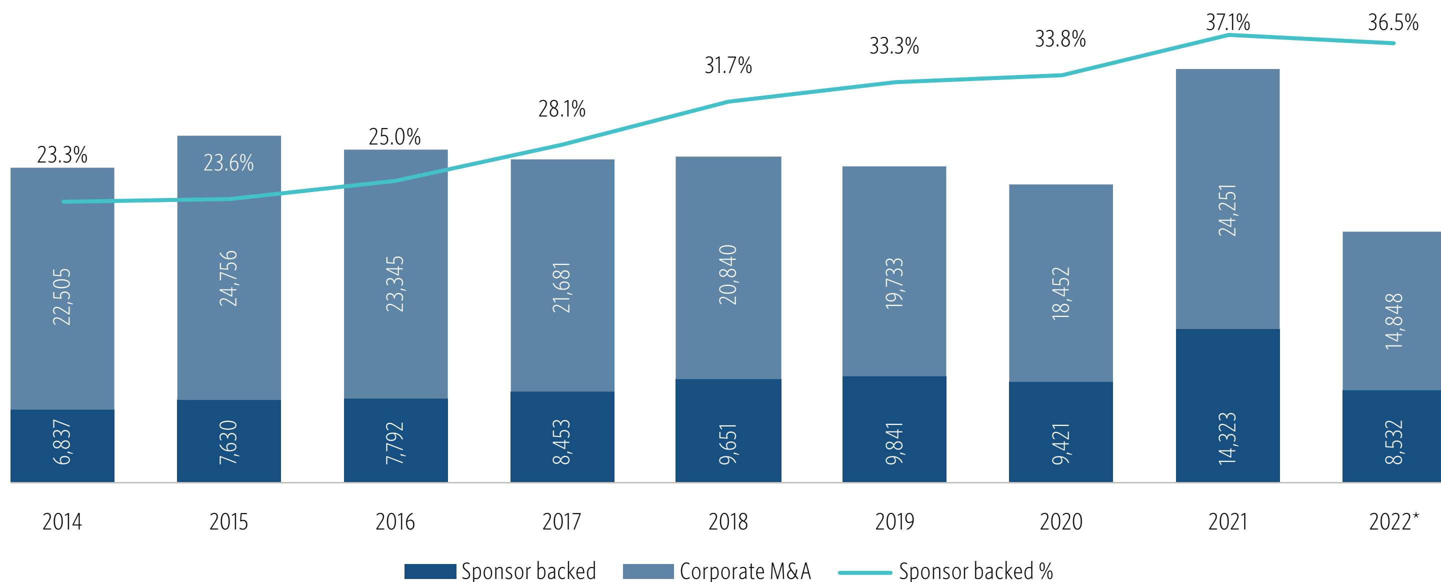

**Source:** PitchBook | **Geography:** Global
*As of September 30, 2022

## European M&A activity with non-European acquirer



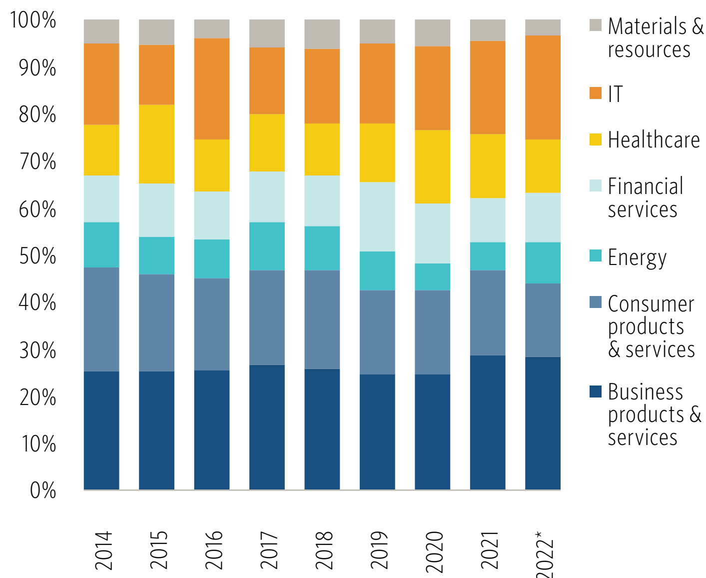

**Source:** PitchBook | **Geography:** Global
*As of September 30, 2022

## M&A deal count by acquirer type



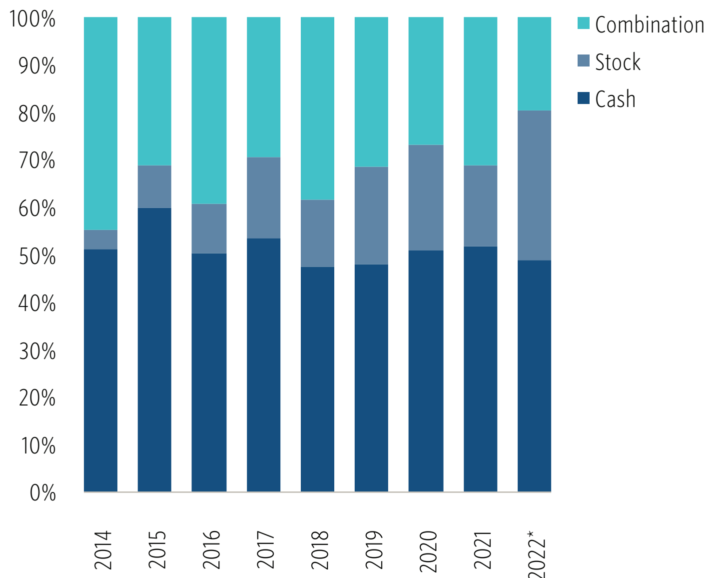

**Source:** PitchBook | **Geography:** Global
*As of September 30, 2022

## Share of M&A deal value by sector



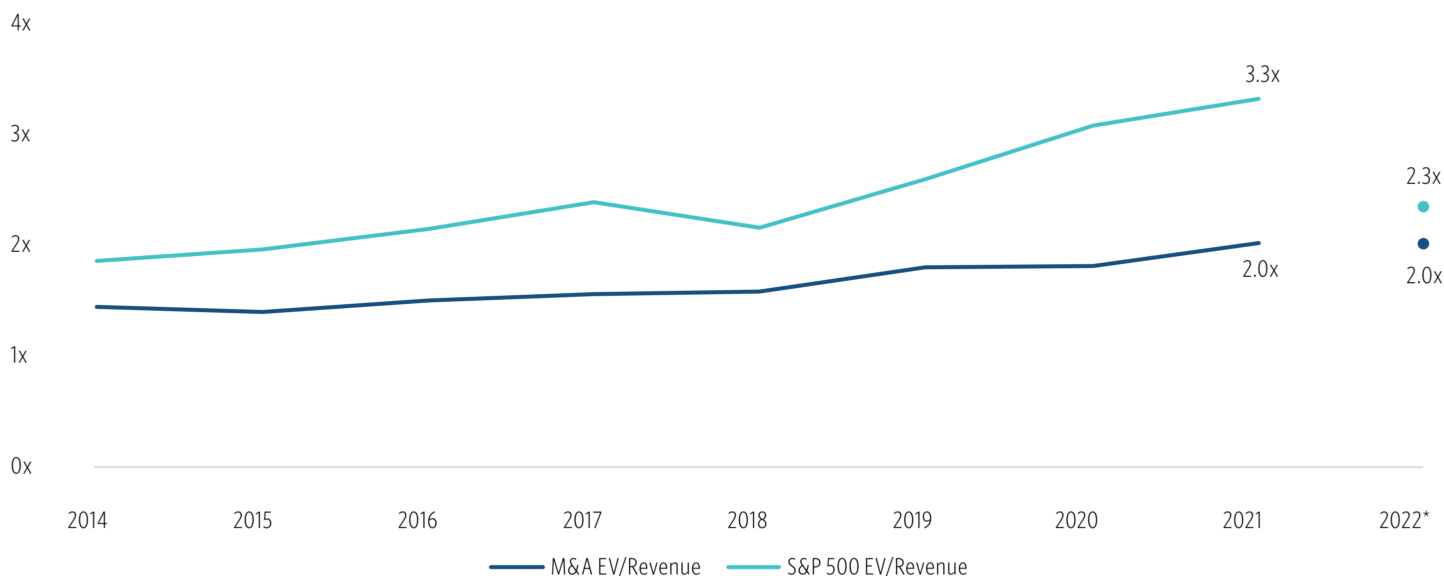

**Source:** PitchBook | **Geography:** Global
*As of September 30, 2022

## Share of M&A deal value by payment type




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

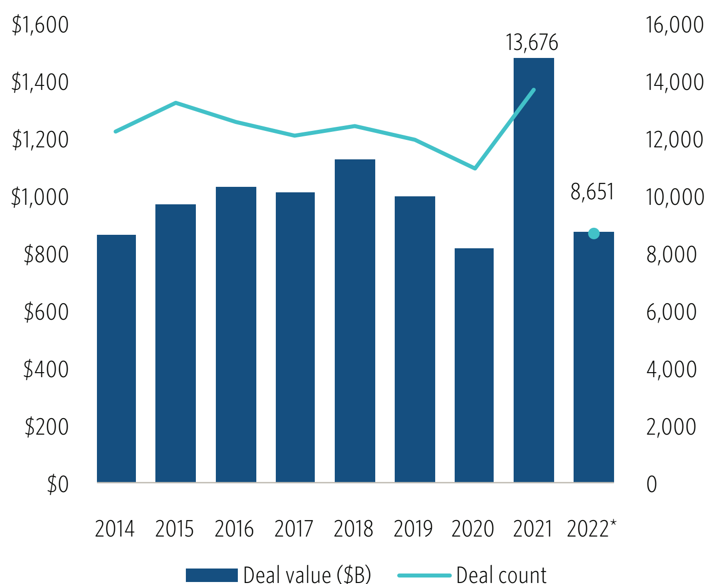
## M&A deal multiples versus trading multiples on public companies




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

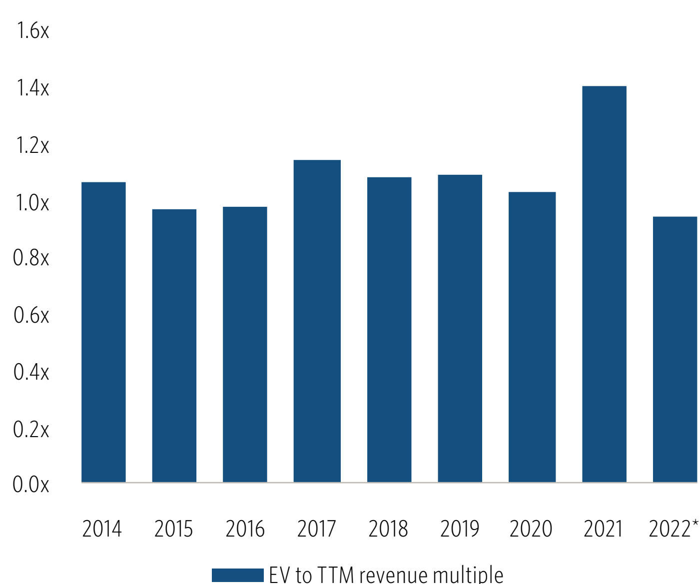
# Business products & services

## Business products & services M&A activity




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

## Business products & services M&A deal multiples




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

**Tim Clarke**
Senior Analyst, Private Equity

**Business products & services back in favor, led by large strategic buyers:** The business products & services sector rotated back into favor in Q3. Compared to the prior year, deal count surged in Q3 with a total of 2,399 transactions. Large strategic buyers have been leading the charge, completing 17 deals in the quarter at a value of $1 billion or more. PE has also been active, accounting for 40.5% of all deals in the sector. The sector comprises a broad mix of primarily nontech businesses, spanning everything from manufacturing to professional services to transportation. What attracts corporate and PE buyers alike is its high proportion of boot-strapped and founder-owned businesses. There have been 7,641 acquisitions of private boot-strapped business products & services companies so far this year, twice as many as any other sector. This comes at a time when both strategics and sponsors are postponing exits in hopes of a recovery in values, so having this source of sellers is important to maintaining deal flow.

**Aerospace & defense heating up:** Geopolitical instability, large increases in government defense budgets, and the eventual—albeit gradual—recovery in commercial airline travel have all contributed to renewed interest in the aerospace & defense industry. A total of 56 deals were completed during the quarter, and another 41 are in progress. Notable deals include Parker Hannifin's acquisition of Meggitt, a manufacturer of high-performance components and sub-systems, for $7.4 billion (3.3x revenue). The deal doubles Parker Hannifin's aerospace systems segment and provides accelerated research & development. In August, PE-backed Cobham completed its acquisition of defense vendor Ultra Electronics for $3.1 billion (3.1x revenue). Both companies are based in the UK, and the deal combines complimentary offerings for many of the same customers.

**Supply chain continues as a key investment theme:** With inflation now full blown, companies continue to seek ways to counter supply chain disruptions and unlock savings for their organizations and their customers. Several logistics firms were among the top deals closed in Q3 2022. In July alone, Shopify paid $2.5 billion for Deliverr, a provider of tech-enabled e-commerce fulfillment services; JD Logistics acquired Deppon, a provider of express delivery, whole vehicle storage, for $1.3 billion; and Siemens divested its parcel logistic services business to Korber for $1.2 billion.

A WORD FROM LIBERTY GTS

# Where will deals meet challenges in 2023?

## Liberty GTS releases annual claims briefing.

Every year at this time, Liberty GTS publishes an analysis of the claims that have arisen on M&A deals that we have insured. The results give us real insight into how the nature of R&W claims is changing over time and how they are likely to change in the future.

This year particularly, the macroeconomic and geopolitical environment poses numerous challenges for businesses, and insight to help manage this turbulence is particularly useful for all those involved in making and insuring M&A deals.

The significant headwinds facing the global economy are likely to weigh on the M&A industry in the coming months and increase the possibility of 'buyer's remorse,' especially where the buyer believes it bought at the top of the market or that the business it has acquired may not deliver the expected returns. However, if our experience from the COVID-19 pandemic is anything to go by, we do not anticipate that this will lead to a sudden flood of R&W claims.

We anticipate that the current environment will, instead, lend itself to an increase in certain types of claims and we have identified a number of potential areas of concern.

**Undisclosed price increases**

The inflationary pressures that have built up due to the supply chain issues created by COVID-19, and the disruption caused by the on-going war in Ukraine, could mean that we see more claims relating to undisclosed price changes going forward. The risk is particularly acute if the price change is imposed on the target late in the day, just before signing, particularly in a big business. This increases the importance of a buyer taking active steps to understand the target's pricing arrangements with its suppliers and the contracting parties' ability to amend the terms of an agreement or to terminate it. We take additional comfort if we know that the buyer has been allowed to speak with key suppliers, as this will usually flush out any issues not picked up as part of the desk-top due diligence.

**Simon Radcliffe**

*Head of Liberty GTS Claims*

*Simon Radcliffe joined Liberty GTS in February 2019 as a dedicated M&A claims counsel and now oversees the GTS claims practice. Simon qualified as a lawyer in 2008 after completing training at CMS. He moved to Norton Rose Fulbright LLP in 2013, where he was a senior associate on the insurance team. During his time in private practice, Simon specialized in assisting insurers to investigate and assess policy claims across a range of business lines, with a particular focus on handling high-value M&A insurance claims. Simon has extensive London market experience and undertook secondments at two leading Lloyd's syndicates before joining the GTS team.*

**Undisclosed customer incentives**

We have seen a number of claims already this year relating to undisclosed customer incentives, with the allegation being that these were either not properly reflected in the accounts or were given outside of the usual course of business. This is probably a by-product of the fact that customer incentives—which can range from rebates to discounts on future orders—were used as a means of retaining customers through the pandemic. This is a trend that is likely to continue given the current economic climate. As such, we expect this to become an area of increased focus for buyers and their advisors during the due-diligence process.

**Inventory issues**

The supply chain issues that resulted from the pandemic are still not fully resolved and continue to impact businesses and their customers. This is a particularly critical issue for businesses whose operations are heavily reliant on large amounts of diverse inventory, such as the automobile industry. Furthermore, any bottlenecks that impact the speed with which inventory is able to 'move' gives rise to potential issues around stock deterioration and obsolescence. Therefore, understanding supply chain risks remains a crucial part of the due-diligence process and a heightened area of concern.

**Accounts receivables**

We anticipate that we could see more claims in the coming months relating to accounts receivable issues, such as the setting of inadequate bad debt reserves and errors in terms of quantifying a company's total accounts receivables. Indeed, one of our largest paid claims to date resulted from an allegation that the target's management had knowingly underestimated the accounts receivable reserve, which caused more revenue to be recognised in the financial statements than management knew could be realistically collected. We are paying much closer attention, as part of our underwriting, to the size of the accounts receivable figure, relative to the size of the balance sheet, and asking more questions around this issue.

**Fraud**

There is a risk that the challenges presented by the current economic environment may provide target management with a greater incentive to cross the line in order to boost revenue and avoid breaching financial covenants or future cash flow difficulties. Indeed, we have already received several significant claims this year involving allegations of fraud. The types of issues we see differ in terms of the range of sophistication: from an allegation of a local manager passing off a set of forged accounts as the audited accounts, to an allegation of a long-running and elaborate fraud around revenue recognition issues. Rigorous forensic scrutiny applied across the entire due-diligence process is the best way to avoid later complications here.

**Cyber**

The invasion of Ukraine and the resulting isolation of Russia has moved cyber even further up the risk agenda as concerns grow about the possibility of state-sponsored attacks against Western businesses. These concerns are compounded by fears that many businesses do not have adequate cyber insurance cover in place. Indeed, we received a notification within the last 12 months where the estimated loss suffered by the target is significantly higher than the limit provided by its cyber insurance cover. Therefore, we and many other M&A insurers are increasingly focused on managing cyber risk. This is achieved in many cases by excluding cover for cyber-related issues altogether and, in other cases, limiting it by only covering specific cyber-related warranties that we are satisfied have been properly diligenced.

**Third-party claims**

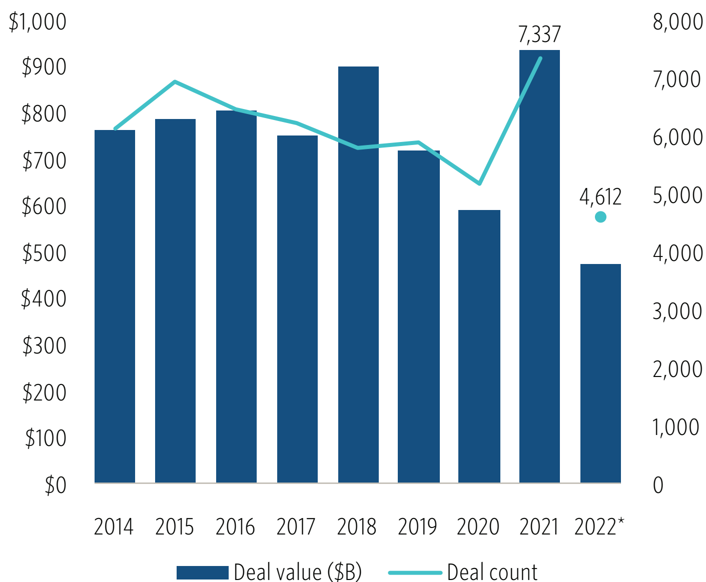
We have seen a significant increase in third-party claims in the last 12 months, especially in the Americas region. We do not expect to see any let-up in this trend in the near term, particularly given that during times of economic uncertainty, litigation is seen almost as a means of raising revenue. This is likely to necessitate an increased emphasis on the identification of potential future disputes during the due-diligence process, as opposed to ongoing and/or threatened disputes.

**ESG issues**

We expect to see more claims arising from ESG-related issues, reflecting the increased importance of this area and the reality that buyers are increasingly expecting sellers to give specific warranties on these issues. The raft of associated legislation that has been, or is due to be, implemented will create more pitfalls for businesses and require costly new ways of working. A business that does not keep up with these changes or fails to live up to its own ESG credentials—or ensure that its suppliers live up to theirs—will be susceptible to enforcement action or litigation, including from increasingly active action groups.

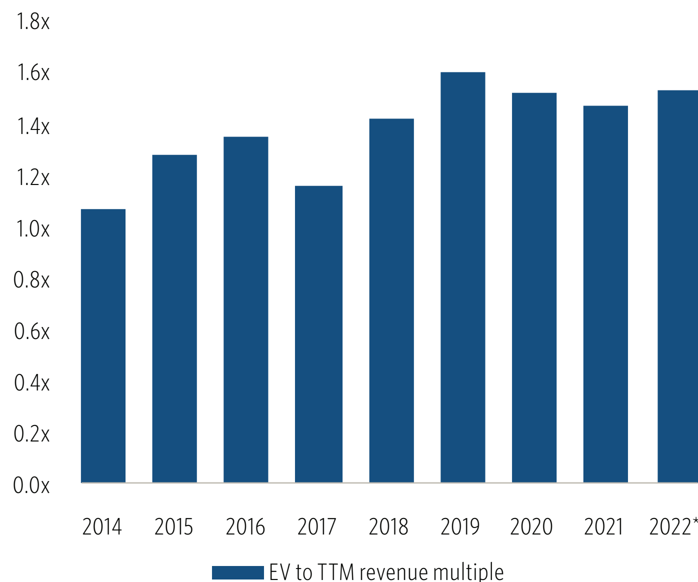
# Consumer products & services

## Consumer products & services M&A activity




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

## Consumer products & services M&A deal multiples




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

**Kyle Walters**
Associate Analyst, Private Equity

**Consumer products & services M&A experienced a major slowdown in Q3 2022, both in deal value and deal count:** During Q3, dealmakers closed 1,222 transactions worth an aggregate of $104.3 billion, flat on deal count but down significantly in value versus the prior year. Three quarters into 2022, corporate buyers lead the way, as once again PE funds see their share of M&A volume decrease, accounting for 31.4% of deal volume—down from a 34.1% share in Q3 2021. The third quarter of 2022 saw no mega-deals ($5 billion or more) close, continuing the trend seen in Q1 of 2022 after Q2 saw numerous take place. Consumers are now faced with new issues including record-high inflation, continuous rate hikes, and persistant supply chain disruptions. These problems have wreaked havoc on households and their spending power, thus continuing the downward pressure in consumer M&A. Consumers are more likely to reduce debt and increase savings in the quarters ahead.

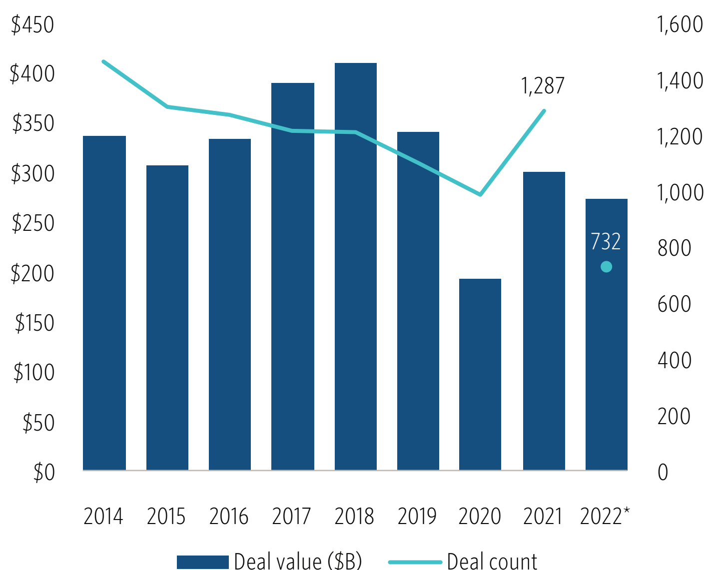
**Consumer non-durables remained strong as other consumer industries saw big declines:** Recent shifts in consumer spending have carried over to M&A activity. M&A has remained strong in the non-durable goods consumer sub-sector, reflecting its more defensive nature in an economic downturn. Examples of non-durable goods include food, beverages, and personal care items. As these goods remain in demand, M&A activity follows suit. In July, CVC Capital Partners finalized its acquisition for UK tea powder and blends manufacturer Ekaterra for $4.7 billion from Unilever.

**Corporate divestitures continue to provide opportunities for firms to adjust to market headwinds:** Persisting market headwinds has caused many firms to re-evaluate their assets and look for ways to cut costs and increase efficiencies. Q3 saw an uptick from Q2 2022 in corporate divestitures, including Radisson Hotel Group's sale of its US franchise business to Choice Hotels International for $675.0 million.[4] This move comes as Radisson looks to continue its focus on the Europe, the Middle East, and Africa, and Asia-Pacific (APAC) regions. Noncore assets will continue to be spun off as companies keep hunkering down to face headwinds.

4: "Choice Hotels International to Acquire Radisson Hotel Group Americas," Radisson Hotel Group, June 13, 2022.

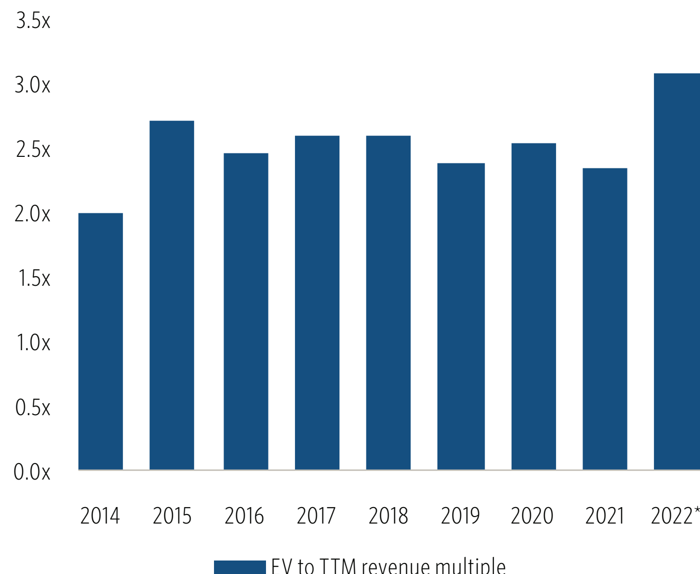
# Energy

## Energy M&A activity




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

## Energy M&A deal multiples




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

**Kyle Walters**
Associate Analyst, Private Equity

**Energy deals increase in size:** Overall, energy deal count was up slightly in Q3 versus the prior year, although value was up by nearly two-fold. This comes as tensions in European Union (EU) states remain high while trying to prepare for the winter heating season with limited gas supplies from Russia. M&A activity in Europe is expected to continue as many companies look to take advantage of the search for energy alternatives and try to lower reliance on Russian supplies. Still, oil & gas remains at the center of M&A activity in the energy sector as prices remain elevated and deals get larger.

**Oil & gas M&A activity in the EU remained strong as it looks to address its energy needs:** Many countries in the EU have relied on Russian-supplied oil & gas for decades, and for some EU countries, that dependence has even increased since moving to end coal and nuclear power generation and production from their own gas fields.[5] Several EU countries have found themselves overly reliant on Russian imports and look to create energy independence and stabilize their energy markets as tensions rise between Russia and the EU. In August, PKN ORLEN announced it has closed on its acquisition of Grupa LOTOS for $10.1 billion, with the goal of increasing Poland's energy independence and ensuring stable fuel prices for all customers.[6] Later in August, Germany confirmed its nationalization of gas importer Uniper, buying out Finnish company Fortum's stake for $16.8 billion, in an effort to stabilize its energy market.

**Despite reliance on fossil fuels, renewables continue to see deal activity:** Some of the biggest energy deals in Q3 came from renewables. Among them was the $2.9 billion purchase of Reden Solar, a France-based solar energy company that finances, develops, and operates solar power facilities across Europe and Latin America,[7] by a Macquarie Asset Management-led consortium. In August, Shell paid $1.6 billion for Sprng Energy, a developer and manager of renewable energy facilities such as solar and wind farms and other infrastructure assets.This acquisition triples Shell's renewable capacity in operation and helps it achieve its target of becoming a profitable net-zero emissions energy business by 2050.[8]

5: "How Europe Became So Dependent on Putin for its Gas," *The Washington Post*, July 12, 2022.
6: "ORLEN – LOTOS Merger Completed," Orlen, January 8, 2022.
7: "Macquarie-led Consortium to Purchase Reden Solar for $2.7bn," *Power Technology*, March 8, 2022.
8: "Shell Completes Acquisition of Renewables Platform Sprng Energy Group," Shell, August 9, 2022.

A WORD FROM RBC CAPITAL MARKETS

# Regulation and activism on the rise

**Vito Sperduto**
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**Larry Grafstein**
*Deputy Chairman, Global Investment Banking*
*larry.grafstein@rbccm.com*

**How are you seeing the Biden administration's antitrust policies play out?**

**Vito Sperduto:** One of the things we're watching closely is how the regulatory agencies are evaluating transactions. The largest players, especially in the technology space, are getting increased scrutiny, even when they're buying smaller assets.

We've counseled our clients to extend the normal estimate of the timeline from announcement to closing, because that has become the norm in the US and other geographies. At the end of the day, good strategic transactions still get done; it's just a matter of planning properly.

**Larry Grafstein:** Companies outside Big Tech still have to be cognizant of the risks of antitrust. The most important thing, almost always, is certainty of closure. If we knew that a deal was going to happen, would we take 5% less than we would from another bidder who had a big antitrust issue? Most boards advised by most law firms and leading investment banks would take the discount for certainty. If your company's in limbo between signing and closing, it affects your employees and current operations. You really don't want to go through a deal being shot down if you can avoid it. The regulators are well aware of that, and they're trying to create that sense of deterrence.

**Sperduto**: Volumes YTD are off over 40% in the US, and over 30% globally. Given some of those mega-deals, such as the Microsoft and Broadcom acquisitions, the technology sector is actually up by over 20%. It's other sectors that are trying to figure out how to push the envelope a little and expand into key sectors.

**What have been the knock-on effects of the slump in valuations?**

**Grafstein:** The drop in valuations in the venture market means it's much more expensive to raise money, especially as venture capitalists get a little more conservative. It also means the IPO option may not be as predictably available by the time you think you might need money. That leads you to really consider M&A.

So larger companies in Silicon Valley are the logical way for private companies to monetize their investments or take their business to the next level as part of a bigger entity. And that's exactly what the government is laser-focused on. There will be an incentive for companies to sell themselves at fair prices to strategic buyers, which will lead to a lot of scrutiny in Washington.

**Sperduto:** Currently, there is still a lag in private valuations overall. I think buyers need to take a look at the assets they consider acquiring and figure out how they fit strategically. What happens if I don't get this asset and someone else does? And then, is there an opportunity to get a comparable asset at a different value? I think that's going to become a bigger issue given the volatility out there.

**Are corporates or PE firms better placed in the current regulatory and economic landscape?**

**Sperduto:** Our PE clients are more often doing transactions, but at the same time, the financing markets are difficult right now. Meanwhile, a lot of our corporate clients are probably better capitalized, and there's a window where they're in a better position to do some transactions.

At the beginning of the pandemic, we saw a lot of private pipes into public companies. Companies were trying to solidify their balance sheets. But PE funds quickly got back to their bread-and-butter transactions and finding opportunities for leveraged buyouts (LBOs). We saw a spike in fund-to-fund transactions. We also saw an incredible amount of corporate divestitures. That's picked up as corporates have increased their review of their internal portfolios.

The record levels of dry powder in PE firms also means they're thinking about alternative places to put money. In the middle of this year, we saw a number of firms look closely at their existing portfolios. They saw opportunities where the debt on their companies was trading at levels they knew were inaccurate. They took advantage of those anomalies and bought in outstanding debt at discounts. Now they're starting to look at getting back to traditional LBOs.

We've also seen a huge pool of capital from direct lenders that is unprecedented and growing day by day. Many PE firms have also set up funds so that at the point of signing the transaction, they already have a specific debt structure lined up from lenders.

**Grafstein:** You would think that if you increased corporate market share enforcement of antitrust, that would give an advantage to a PE buyer. They may be buying multiple companies within a domain, but they don't always compete against each other directly, and they don't approach the level of antitrust market share thresholds that all large companies do.

But in Washington, there's an awareness of this dry powder. As much as they're suspicious of corporate concentration, they certainly don't want to see PE buying up even more of the economy, when that could lead to job losses or political questions about the influence of private capital. The administration is trying to constrain PE in a way that perhaps previous administrations have not: it's definitely part of that net they're extending to try to catch certain transactions.

**How are companies handling the return of shareholder activism after the pandemic lull?**

**Sperduto:** There was a dip in the number of true activist campaigns in the first half of this year. But the rise of things like universal proxies makes it simpler for investors to raise an issue. And there are a lot of funds that want a greater role and greater access to companies and boards.

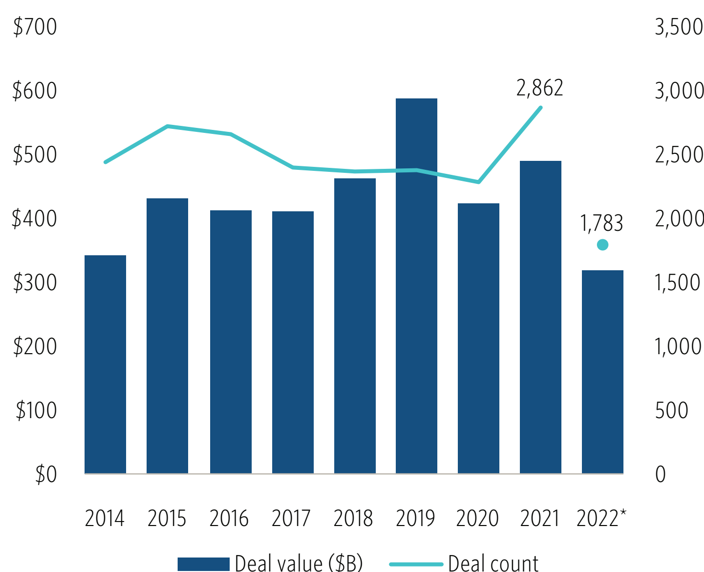
**Grafstein:** When the overall equity indexes are down, the pressure on the buy side is intense. That includes many large and influential institutions that we wouldn't classically call activists, but that have objectives that are very aligned with those of the activists—namely to get the stock price up. It's a very good discussion to have with companies to prepare for this. Companies have become more sophisticated, because activism has been ubiquitous after the slowdown post-COVID-19 and into the first half of this year. It has become much more embedded in the market.

**Sperduto:** Given that the cash on corporate balance sheets is near an all-time high now, we are seeing that cash used for stock buybacks. It's been a preferred route to get board representation. More often than not, they're looking for a more detailed dialogue. Those shareholders are not looking to be passive—they want to be part of the conversation. I think the companies that are dealing with this well are the ones that have a good, articulated strategy and are constantly reflecting on how they're doing relative to that strategy.

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

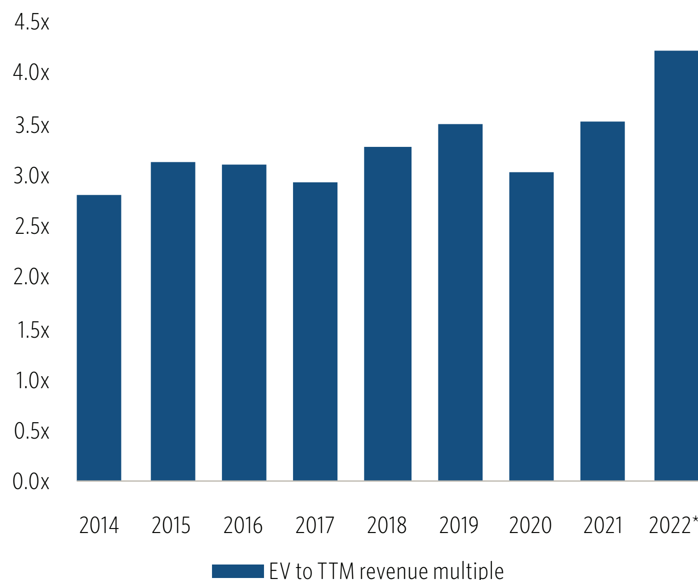
# Financial services

## Financial services M&A activity




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

## Financial services M&A deal multiples




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

**Tim Clarke**
Senior Analyst, Private Equity

**Financial services M&A reflects capital preservation in a rising interest rate environment:** In Q3 2022, 497 deals closed for a combined deal value of $74.7 billion. Similar to technology, deal activity has been tracking well above pre-pandemic levels, up 1.65% if compared to the first nine months of 2019. Deal value, however, is now tracking down due to smaller deal sizes and a more mature state of consolidation in many key sub-segments. During a rising interest rate cycle, certain financial businesses, such as banks, do well due to widening spreads and net interest earnings power. For the others, such as asset management and insurance, it places a strain on balance sheets and earnings power.

**Asset and wealth management stay active:** The investment management industry stayed active during the quarter, mostly with small tuck-in deals. Most notable was RBC Capital's significant push into Europe by acquiring one of the UK's largest wealth management franchises, Brewin Dolphin, for $1.8 billion, equivalent to 2.9x revenue and 2.8% of client AUM. In August, Apex Group closed its LBO of Sanne Group, a leading global provider of fund administration services to the alternative asset industry, for $1.8 billion. Lastly, while no value has been disclosed, Voya Financial closed its acquisition of the US arm of Allianz Global Investors. The deal was prompted by Allianz's $6 billion settlement with the Department of Justice (DOJ), which also barred Allianz from the US asset management industry for 10 years. Voya acquired $93 billion in AUM, increasing total AUM to $330 billion.

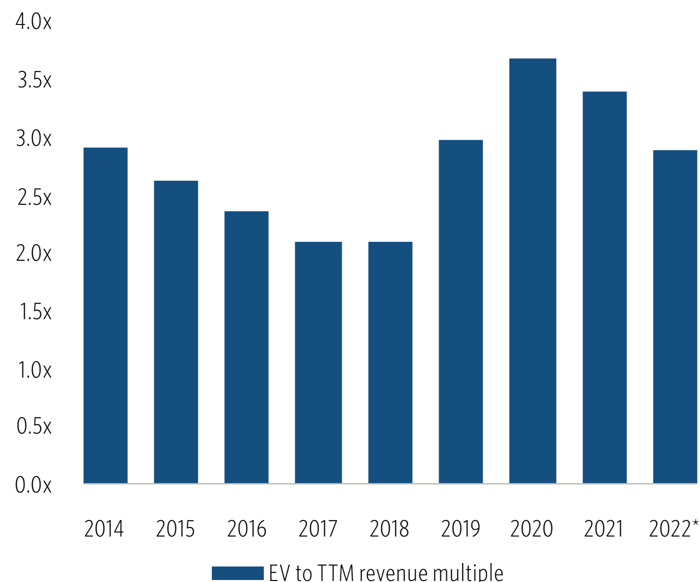
**Insurance produces the mega-deals:** Insurance produced the largest deals in the financial sector during Q3. In July, the Agnelli Family's closely held conglomerate Exor completed its $9.3 billion divestiture of reinsurance giant Partner Re to French mutual insurer Covea. The deal will significantly increase Partner Re's global scale and capital strength, while improving Covea's global risk management capabilities. Also in July, Cigna completed the divestiture of its APAC life, accident, and supplementary benefits business to Chubb for $5.7 billion (1.9x premium revenue). The deal adds to Chubb's already sizeable presence in the region and significantly increases Chubb's exposure to APAC from 11% to 20% of total revenue, excluding China.

# Healthcare

## Healthcare M&A activity

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

## Healthcare M&A deal multiples




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

**Rebecca Springer, Ph.D.**
Senior Analyst, Healthcare

**Healthcare deal activity stutters:** Healthcare accounts for 11.4% of global deal value and 9.3% of deal count YTD, the lowest proportions since 2016. The industry is typically considered a recession safe haven, but smaller companies—most of which are in healthcare services—are under significant financial strain due to knock-on effects of COVID-19 and labor force displacement. The pipeline for large deals, which typically come from the pharmaceutical, medtech, and healthcare information technology (IT) industries, looks thin as well. While many large healthcare companies are on solid financial footing and have cash on hand for M&A, growing macroeconomic uncertainty is causing some to press pause on their deal pipelines.

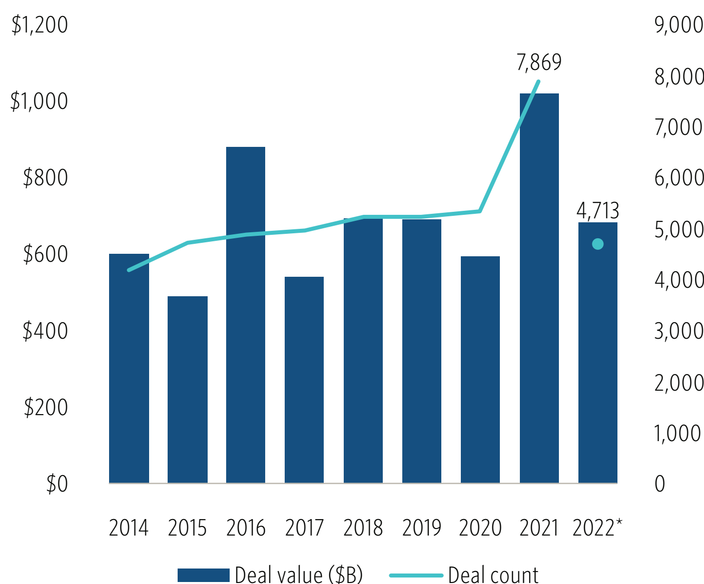
**Opportunities for Big Pharma:** More than half of pharmaceutical company revenue now comes from specialty drugs, which are extremely inelastic goods. This means that Big Pharma is well-positioned for a recession, and that these firms must continue to diversify and add cutting-edge therapeutics to their portfolios to stay competitive. In the US, the Inflation Reduction Act's much-touted provision to allow Centers for Medicare & Medicaid Services to negotiate Medicare drug prices had little effect on Big Pharma stocks; the provision applies only to a limited drug list, will not be implemented until 2026, and removes some regulatory uncertainty for investors. Pfizer, whose revenue nearly doubled from 2020 to 2021 due to vaccine sales, has been on a noteworthy buying spree. The company has completed four acquisitions, including three $5 billion-plus all-cash deals this year.

**Optum-Change deal clears antitrust block:** UnitedHealth Group's Optum subsidiary completed its $13.0 billion acquisition of Change Healthcare in October. The merger had been temporarily blocked by a much-watched DOJ antitrust lawsuit that turned on the alleged potential for anticompetitive data consolidation between United, an insurer, and Optum/Change, a healthcare provider and analytics company.[9] To pass muster, Change also divested ClaimsXten to TPG for $2.2 billion. The successful acquisition means US antitrust scrutiny is unlikely to discourage vertical M&A in healthcare in the future, although it may spur additional divestitures.

9: "DOJ Sues to Block UnitedHealth—Change Healthcare Deal," *Fierce HealthCare*, Paige Minemyer, February 24, 2022.

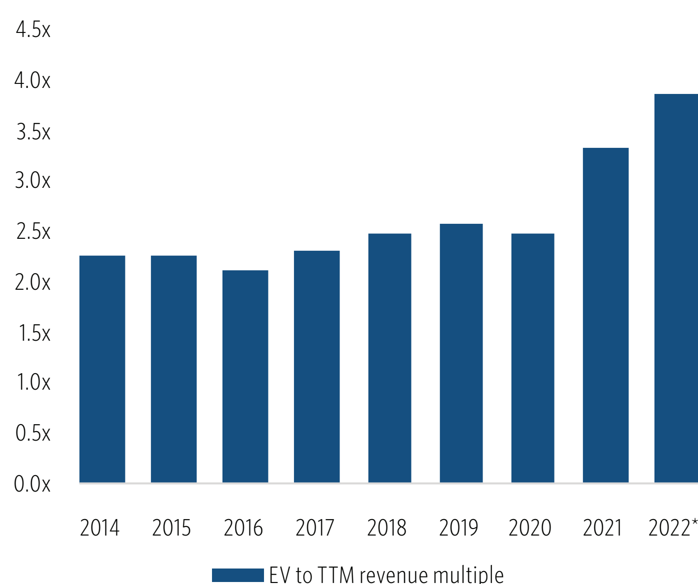
# Information technology

## Information technology M&A activity




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

## Information technology M&A deal multiples




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

**Tim Clarke**
Senior Analyst, Private Equity

**Tech's dealmaking machine finds another gear:** In what was supposed to be the slump that followed the COVID-19 "bump," deal activity in tech has inched higher instead. The sector continues to churn out deals at a pace that is well above the 2017 to 2019 median of roughly 1,200 deals per quarter. Tech is the one sector that has not reverted to the pre-pandemic mean, and the precipitous decline in valuations has only stimulated further interest and deal flow from opportunistic buyers. The sector's share of M&A value rose to 22.2% in 2022, up from 19.7% in 2021, a fifth consecutive yearly increase.

**Valuations return from orbit:** Enterprise value (EV) to revenue multiples on tech M&A deals have returned to earth after reaching unprecedented heights in 2021. At the epicenter of this were software as a service companies, which regularly traded at mid-teen multiples (EV to revenue) both in public markets and private M&A deals. 2022 saw an almost complete unwind to multiples more in line with pre-pandemic medians. These more rational valuations are on full display in this year's 18 take-private tech deals, which feature a median revenue multiple of 6.9x and an average discount of 12.2% from the 52-week highs of their shares.

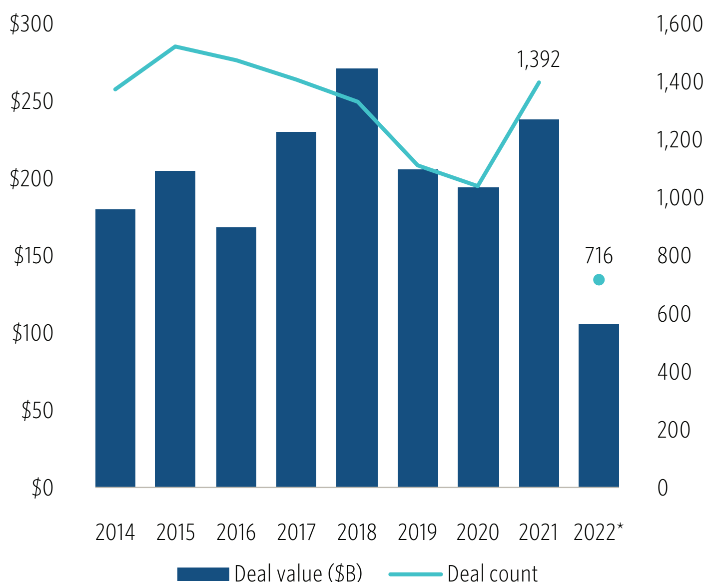
Still, for the right transformative deal, iconic valuations are not completely a thing of the past, as Adobe's $20.0 billion acquisition of Figma clearly demonstrates. In what would be the largest acquisition of a VC-backed company, should it gain full regulatory approval, Adobe is believed to be paying 50 times the company's annual recurring revenue.[10]

**Citrix deal highlights disruption in LBO lending:** The largest IT deal to close in Q3 was Vista's take-private of Citrix for $16.5 billion (4.7x revenue). The deal creates a new global leader in enterprise software by combining Citrix's virtualization products with the business intelligence and integration solutions of TIBCO, a Vista portfolio company.[11] The two firms struggled to raise $8.5 billion in high yield and leveraged loan debt to back the deal, ultimately resulting in $700 million in losses to bank underwriters.[12] All four of the last take-privates have since been funded by private debt funds instead of banks, signaling a potential shift in future LBO deal financing, at least until the risk-off conditions subside for investors in public debt.

10: "Why Adobe Wants Figma and Why Some Investors are Worried," *The Wall Street Journal*, Aaron Tilley, September 18, 2022.
11: "Citrix Joins Tibco in Newly Formed Cloud Software Group," *Channel Futures*, Jeffrey Schwartz, October 3, 2022.
12: "Banks Close Painful Citrix Debt Chapter with $700 Mln Loss - Source," *Reuters*, Abigail Summerville and Matt Tracy, September 21, 2022.

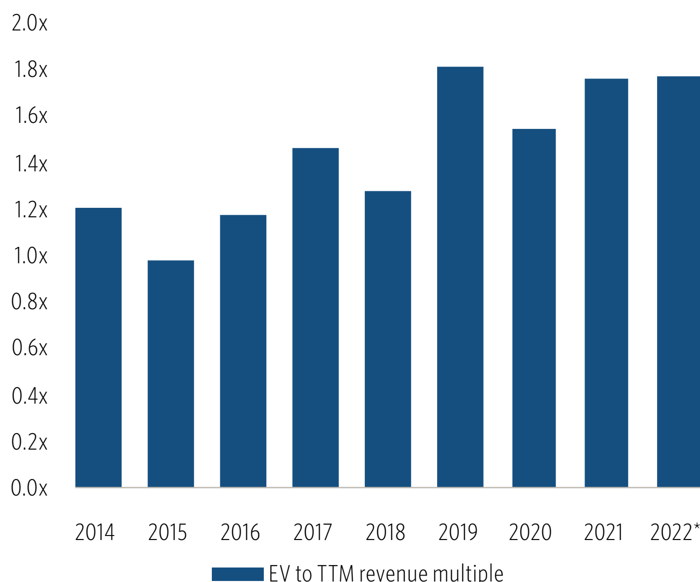
# Materials & resources

## Materials & resources M&A activity




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

## Materials & resources M&A deal multiples




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

**Kyle Walters**
Associate Analyst, Private Equity

**Materials & resources M&A activity returns to 2020 levels:** The materials & resources sector continues to see sequential decline in M&A activity after strong deal activity in 2021. In Q3 the sector saw 212 M&A deals take place for a total value of $32.8 billion, a pace seen this year that is reverting back to pre-2021 norms. Mining firms are seeing lower commodities prices after a two-year bull run that came to an end at the beginning of 2022. Firms in the space are also facing growing environmental, social, and governance (ESG)-related scrutiny as the push for net-zero emissions continues.

**Re-shoring is a growing option for the materials & resources industry:** Many countries and firms are still being hampered by supply chain disruptions. In addition, geopolitical tensions with Russia and China have pushed many countries and firms to consider other supply chain options. The materials & resources industry is especially sensitive to supply chain issues, and re-shoring is one option that is being actively pursued, with deal activity likely to follow.

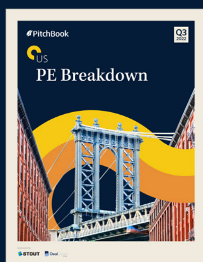
**Strong end demand and M&A in containers & packaging:** The pandemic spurred increased utilization in the containers & packaging industry, due to the lock-step change in e-commerce purchasing habits by businesses and consumers. These trends have yet to abate, and the industry has seen strong M&A as a result. In September, MML Capital Partners acquired Global Pallets and Packaging Services for $251.2 million. The containers and packaging industry should see strong demand going forward as e-commerce continues its upward trend.

**ESG will be a factor in M&A activity going forward:** ESG has been a hot topic when it comes to implementing strategies in different industries. The focus of ESG in the materials & resources sector is not going away and will be a point of focus for M&A activity to come. The goal of many big companies is to achieve net-zero emissions, which would have been unthinkable just a few years ago for this industry. Some firms will be weighting their portfolios in favor of critical minerals and away from more carbon-intensive assets, driven by both the looming supply gap and carbon reduction targets.[13] Net zero and the energy transition will drive demand for metals. The shift to net-zero mining will require more mining, not less.

13: "Global M&A Trends in Energy, Utilities and Resources: 2022 Mid-Year Update," PWC, n.d., accessed October 11, 2022.

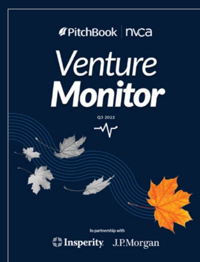
# Additional research

Private markets




### Q3 2022 US PE Breakdown

*Download the report here*




### Q3 2022 PitchBook-NCVA Venture Monitor

*Download the report here*

### 2022 Sustainable Investment Survey

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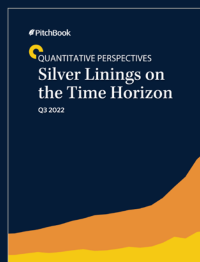


### Q3 2022 Quantitative Perspectives: US Market Insights

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