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Liberty Global Transaction Solutions

Global M&A Report

2021 Annual

PitchBook

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Published on January 26, 2022

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Executive summary

Global M&A flourished in 2021. Deal activity rebounded from the COVID-19-induced slowdown in 2020 and blew past previous records. Strong public equity markets undergirded the resurgence, reflecting high business confidence and providing the swelling ranks of public companies with increased buying power. However, persistent inflation may contribute to a softening in equity markets and higher cost of capital due to interest rate hikes in 2022. Various inflation drivers, including supply chain bottlenecks and labor shortages, are also pressuring some companies' margins. Nevertheless, the outlook for 2022 is overwhelmingly positive as companies across sectors use M&A to navigate technological change and the growing importance of environmental, social, and governance (ESG) themes. Unprecedented PE fundraising, especially by the largest funds, lays the foundation for forthcoming M&A activity.

Both Europe and North America contributed to 2021's record-breaking year. Having avoided a no-deal Brexit, the UK & Ireland region continues to attract buyers due to supply of fundamentally strong but undervalued companies, while Germany's renewed focus on digitization and sustainability is creating M&A opportunities. In North America, a robust macroeconomic climate enabled numerous gargantuan tie-ups. Going into 2022, dealmakers are keeping an eye on interest rate hikes and growing antitrust hawkishness, although these are unlikely to significantly depress deal activity.

The financial services, healthcare, and technology industries drove M&A activity in 2021. Financial services buyers are acquiring digital and fintech assets to keep pace with aggressive technology adoption among consumers and businesses. In healthcare, growing health spending is enticing new players such as brick-and-mortar and e-commerce retailers and cloud computing giants into the fray. Finally, technology accounted for a growing proportion of M&A activity even as regulatory pressure grows in China, the US, and Europe. Meanwhile, the energy and materials & resources sectors improved from 2020's slump but have yet to witness a full resurgence despite soaring commodities prices.

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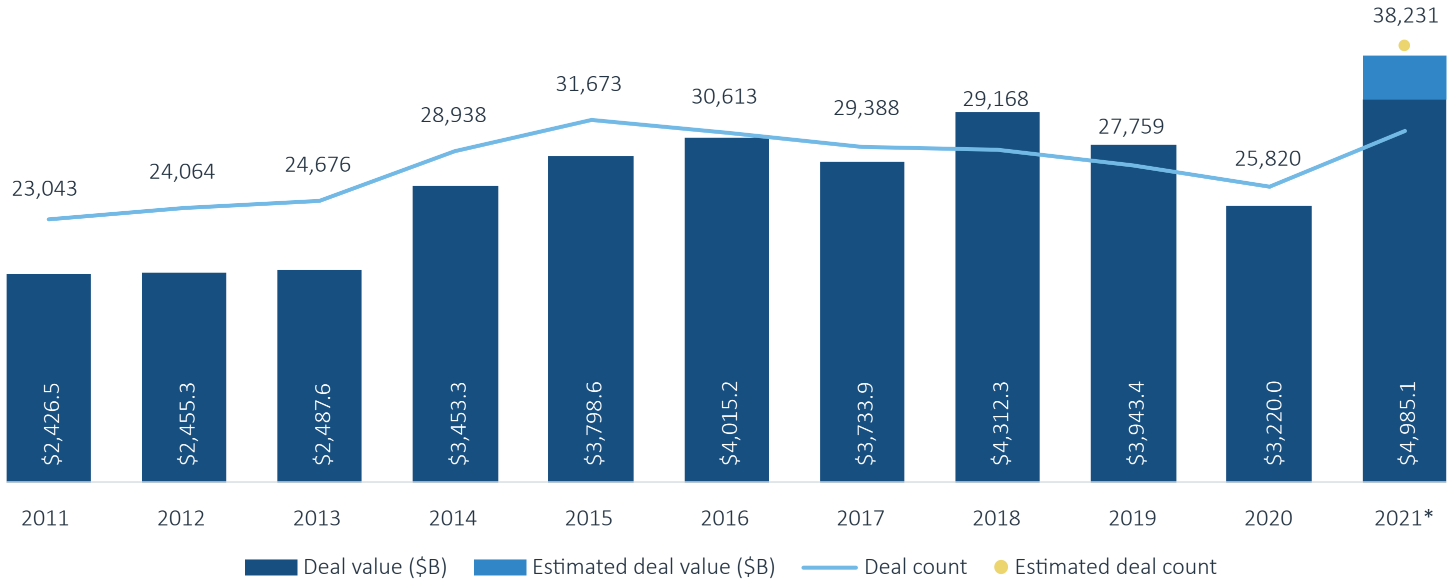
Overview

Global M&A activity



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Wylie Fernyhough Senior Analyst, PE Lead
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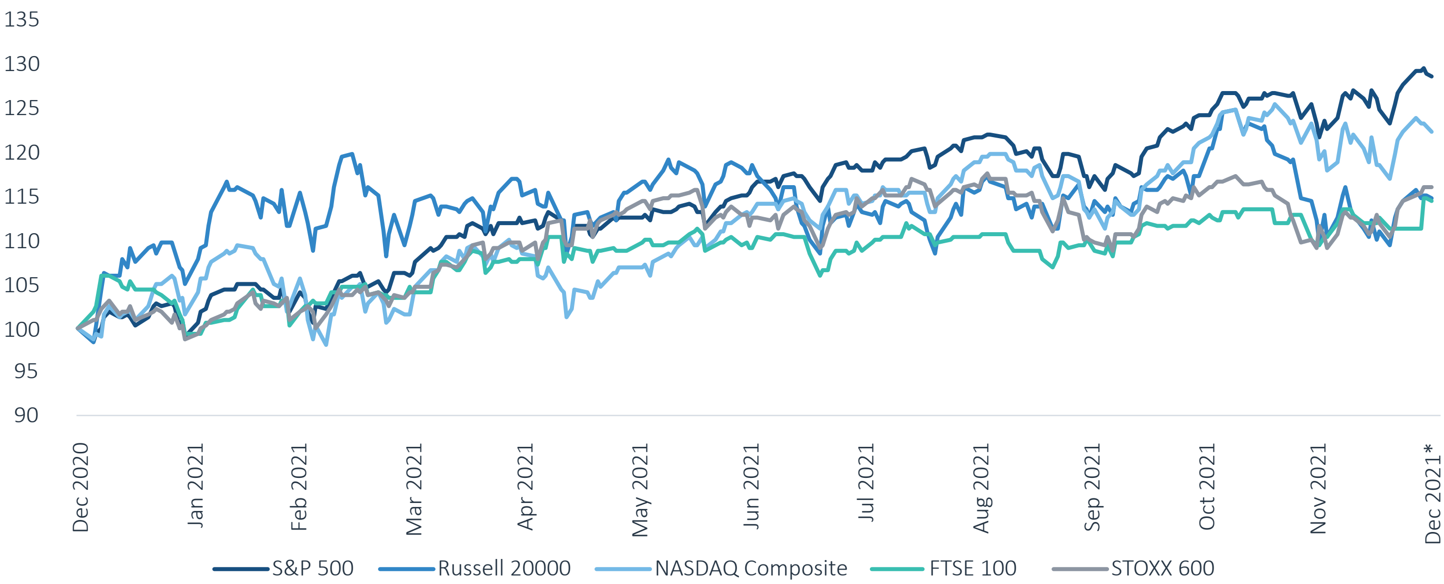
Global M&A thrived in 2021 as deal activity rebounded from the COVID-19-induced slowdown in 2020 and blew past previous record levels. The unprecedented depth, breadth, and velocity of the deal market led deals across all sectors, sizes, transaction types, and geographies to have healthy showings. The rebound endured through most of the year, despite several new COVID-19 variants popping up. Vaccination rates across the globe—and transitioning from a pandemic to an endemic mindset—offer a more stable outlook, which is bullish for deal flow. With a more normalized economic environment, cross-border deal activity finally re-emerged. Much of it was regional, but as the US lifted travel restrictions, transatlantic deal activity also surged back to life.

Healthy returns from public markets undergirded a more favorable M&A environment as well. Major equity indexes, including the FTSE 100 and the S&P 500, powered higher through much of the year. This reflected higher confidence levels and surging fundamentals. Earnings and profits rose, while multiples remained aloft. This helped c-suites and board rooms feel more comfortable taking on risk and pursuing M&A deals. Additionally, the lofty multiples enticed private equity- and venture capital-backed companies to publicly list—through IPOs, reverse mergers with a special purpose acquisition company (SPAC), or direct listings—at a rate not seen in over two decades. A growing number of publicly listed companies counters a nearly two-decade trend and bodes well for future M&A activity. Public companies are much more acquisitive than private companies, especially when considering the largest deals, and the proportion of deals completed with all stock or a combination of stock and cash has swelled over the past two years.

Although M&A activity appears poised to continue its frenzy, several factors are complicating the outlook. One major concern is the elevated inflation readings posted throughout 2021. US inflation hit a staggering 7.0% in December 2021—the highest figure since 1982—while the Euro area hit 5.0% inflation and the UK 5.4% in the same month. Because of this, central banks in Europe and the US are facing difficult questions about how they will respond in 2022. The Federal Reserve has indicated it will raise rates three times in 2022 and is slowing its bond buying program in preparation. The Bank of England began raising rates in December but is still employing some quantitative easing, while the European Central

Select stock indexes (rebased to 100 on December 31, 2020)



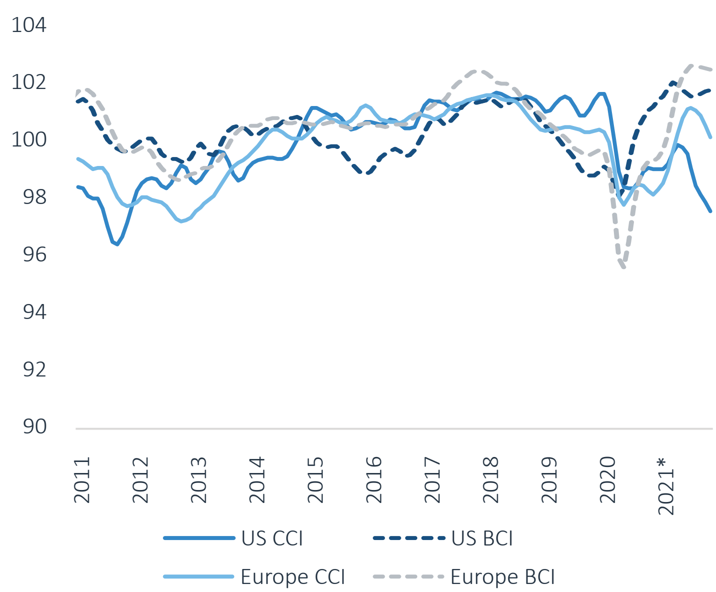
Source: Morningstar | **Geography:** Global
*As of December 31, 2021

Bank has stated it wants to avoid raising rates in 2022 but will take action against inflation if necessary. Higher rates lead to increased borrowing and leverage costs, higher discount rates, and higher savings rates—all net negatives for deal activity.

Myriad factors—including rising demand, supply chain issues, and shifting labor dynamics—are driving inflation numbers. While the demand and supply chain complications are likely to normalize somewhat, the shift in labor market forces could pose challenges to dealmaking. Fear of contracting COVID-19 within the workplace and a demand for higher wages have curtailed the workforce in many low-wage sectors. Labor shortages abound, and, for the first time in decades, labor, rather than capital, is a growth inhibitor. Depending on trends around unionization, minimum wages, and more, margins face compression in human capital-intensive sectors such as manufacturing, hospitality, and healthcare services, which may slow M&A activity.

Looking at some of the bigger picture trends, technology and ESG remain recurring themes. Not only does the tech sector continue to account for a soaring proportion of global M&A, but every company is being forced to adopt technologies that increase productivity, engage customers, and/or streamline operations. Companies across industries also face challenges and opportunities related to ESG factors. Oil and gas producers are

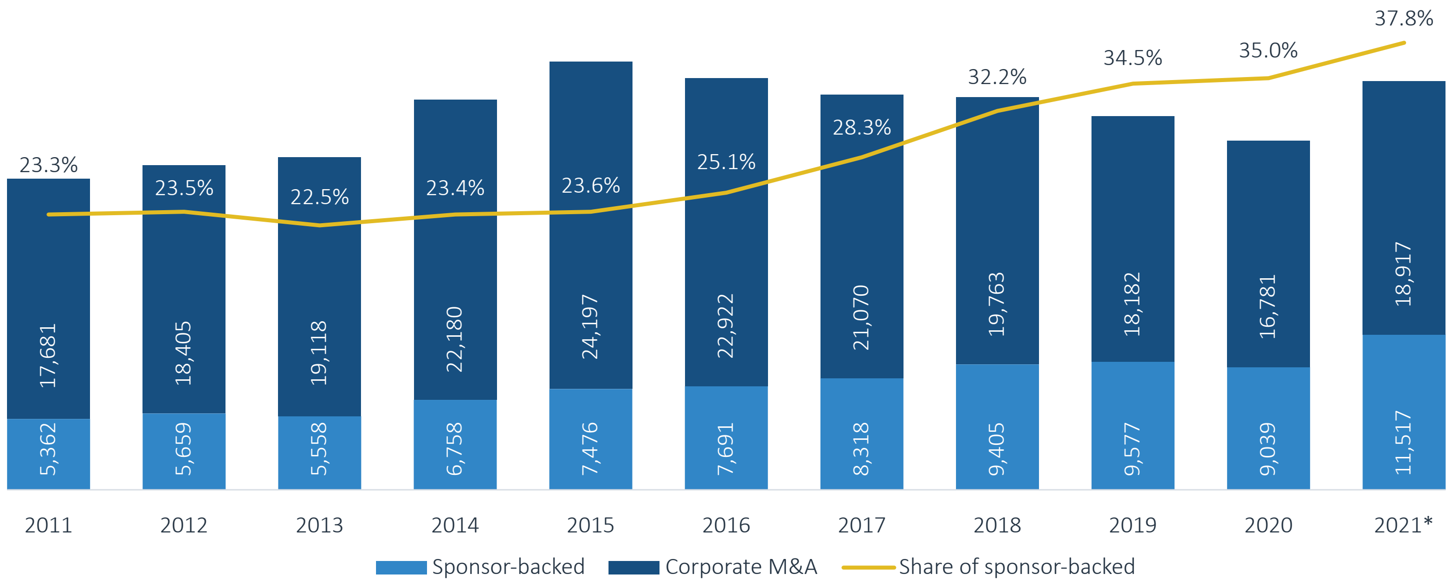
US and Europe Consumer Confidence Indexes and Business Confidence Indexes



Source: OECD | **Geography:** US and Europe
*As of November 30, 2021
Note: Europe data includes all European OECD countries, including the UK.

feeling pressure to treat their workforces better, reduce carbon emissions across product phases, and add underrepresented groups to senior leadership levels, among other things. Automakers are electrifying their fleets and working to more sustainably source resources.

M&A count by acquirer type

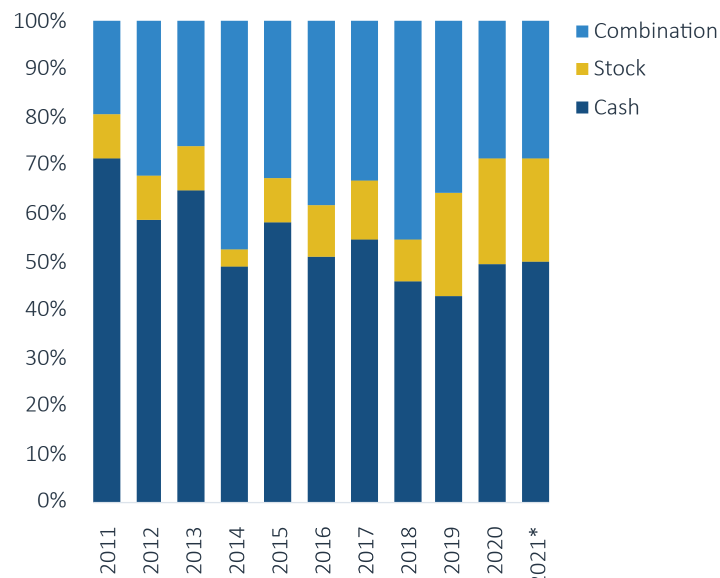


Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Companies are being asked to factor in stakeholders rather than simply shareholders. ESG reporting standards, still a major challenge, are being sorted out as well. Europe clearly leads the pack here, and foreign companies hoping to do business or buy European companies will be forced to meet extensive disclosure requirements. There are also signs that the Securities and Exchange Commission (SEC) is moving toward requiring disclosures relating to climate impacts and potentially other issues, such as leadership diversity.

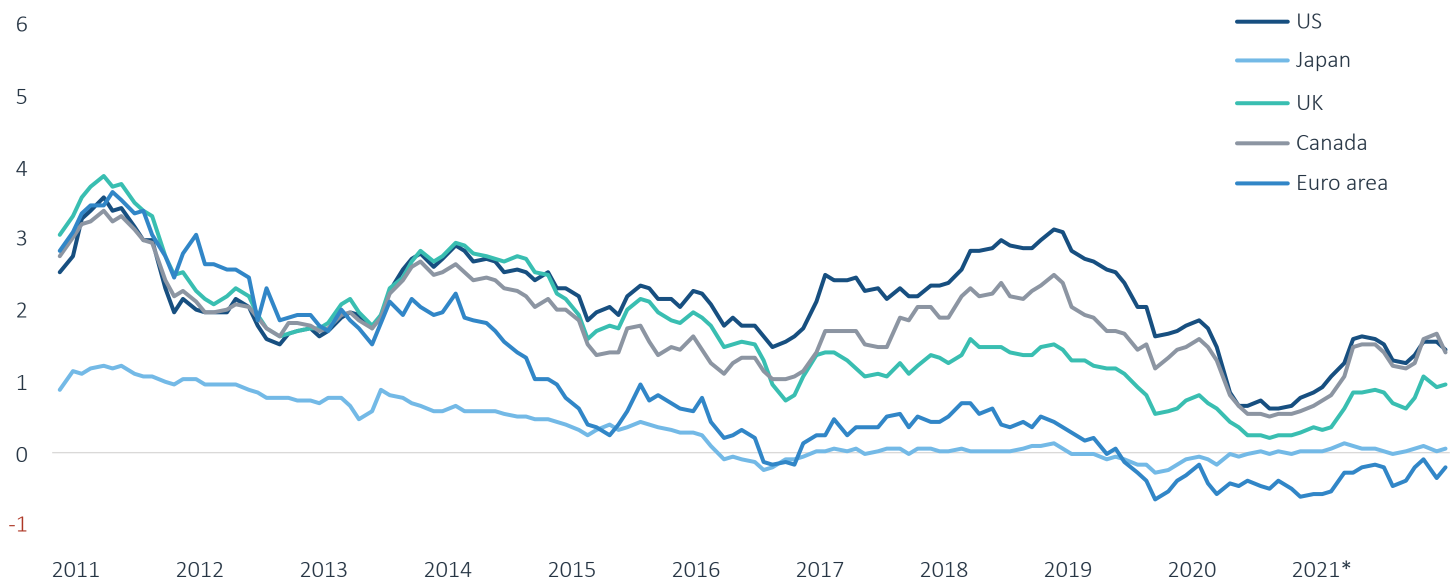
Private equity dealmaking hit an all-time high in 2021, and signs point to an equally active 2022. With the trillions of dollars that have poured into private funds in the past decade or more, strategies beyond vanilla financial-engineering-focused leveraged buyouts (LBOs) of asset-heavy companies have become the norm. PE firms are becoming more specialized and sophisticated operators and are thus diversifying strategies within the asset class, from growth equity to continuation funds. The year also saw the return of the mega-deal. Consortiums of financial sponsors teamed up on several $10 billion+ deals during 2021, including $17.0 billion for Athenahealth and $34.0 billion for Medline. The excitement spread to Europe as well, with Telecom Italia (MILAN: TIM) receiving a €10 billion+ buyout offer and Bain Capital and CVC expected to bid on Walgreens' (NASDAQ: WBA) carveout of UK-based Boots. With buyout funds expected to amass more capital in $5 billion+ funds than ever in 2022, these mega-deals could become more regular.

Share of M&A value by form of payment



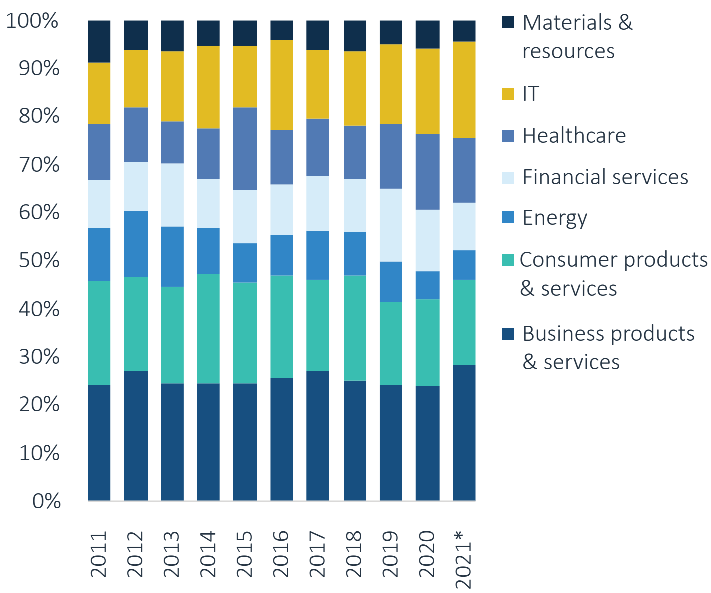
Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Select 10-year bond yields



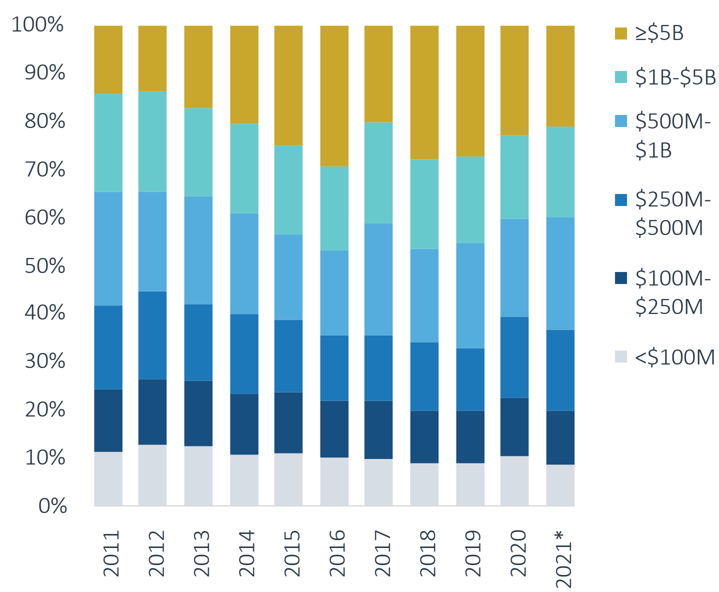
Source: FRED, ECB | **Geography:** Global
*As of December 31, 2021
Note: Euro area includes only government issuers whose rating is AAA.

Share of global M&A value by sector



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Share of global M&A value by size bucket



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

Liberty GTS: Emerging Trends

Ongoing flood of dealmaking will make 2022 a busy year for M&A insurers

2021 ended up being a bumper year for M&A deals and also for M&A insurers. It is interesting that not all the increase in premium came from extra deals being done. 2021 also saw a step change in how dealmakers see deal risk and the part they want insurers to play in mitigating it, which has increased the take-up of this class of insurance.

Where once M&A insurance was a nice-to-have, perhaps suggested by buyers to cover a single unquantifiable risk (a looming tax liability or an ongoing legal or contract issue) identified during due diligence, M&A counterparties now have much greater anxieties about uncertainties behind the deals that they are doing.

Some of this concern is industry related. Healthcare M&A, for example, comes with its own health warning. In this sector, the post-deal litigation and compensation risks are high. There is also a real danger around audit risk for medical billing and coding, where inaccurate billing, sometimes semi-fraudulent in nature, can be uncovered after an acquisition is made.

But some of the risks preoccupying dealmakers are much more global and general. One emerging trend in 2022 that will continue to worry all parties is the move toward much more aggressive tax auditing by authorities across the globe as they focus on recovering some of the fiscal money spent during the pandemic. This is certainly a heightened risk area for deals in 2022, and it is already driving increased interest in buying tax liability coverage.

Increased regulation is also a concern for dealmakers. Private equity (PE) firms are asking themselves if regulators will start taking different and more stringent views in the light of what has happened in the last two years. Even more concerning is the question of whether increased ESG regulation will bring negatives to what were previously positive acquisition targets. We believe the answer is "yes," and, among other things, we have launched our contingent risk group to look at this new type risk.

Rowan Bamford
President
Liberty GTS

Rowan is President of the Liberty Global Transactions Solutions (GTS) M&A insurance team, a position he has held since 2015. This global M&A insurance unit of Liberty Mutual offers transactional risk insurance products such as representations and warranties insurance, tax liability insurance, and contingent legal risk insurance. Under Rowan's leadership, the book of business has increased an average of 67% year-over-year in GWP, and he now oversees a team of more than 80 specialists spread across ten countries. Prior to joining GTS, Rowan managed AIG's EMEA M&A book and spent three years as a senior underwriter at Ironshore. Before joining the insurance market, Rowan spent eight years in the corporate department at the international law firm Dentons. Rowan specialized in private M&A work in the financial services sector and spent time on secondment to an investment bank and a Lloyd's syndicate.

Social inflation is another big concern. Corporates are having to reassess past positions. Decisions and past actions taken that previously seemed rational are now raising eyebrows, and in some cases impacting jury decisions and regulatory thinking. For M&A buyers this is a terrifying prospect. If social consciences cause current thinking to be applied to the past actions, this could bring big changes to previously "safe" acquisition plays.

As a result of all of these factors, I predict with confidence that in 2022, M&A underwriters will be underwriting a greater percentage of the deals done in the market. While it is difficult to predict what the M&A market will do, we feel certain that M&A insurance penetration will continue its upward growth trend.

What about the M&A market itself?

It appears certain that the M&A market will remain strong through the first half of 2022. After that, I predict that the pace may slow—perhaps significantly.

There are two factors that may drive a slowdown. On a practical level, the pandemic has accelerated the cycle of buy-integrate-divest for a lot of PE firms. All firms have been buying, and now they all need to take time to integrate, polish, improve, and grow their new acquisitions before divesting them. This process takes time and energy, and while normally, some PE firms are in buy mode while others are not, the pandemic has brought them all into the same stage of the cycle. I consider it likely that PE firms may collectively pause to catch their breath in 2022—not because they lack dry powder but because they all need to devote some attention to the companies they have already bought.

The second issue is that other forms of investment outside of PE may become more attractive. Increased interest rates, for example, may make cash or treasury bonds more attractive than at present, which would certainly put a brake on the levels of cash coming into M&A.

So, who will buy what in 2022?

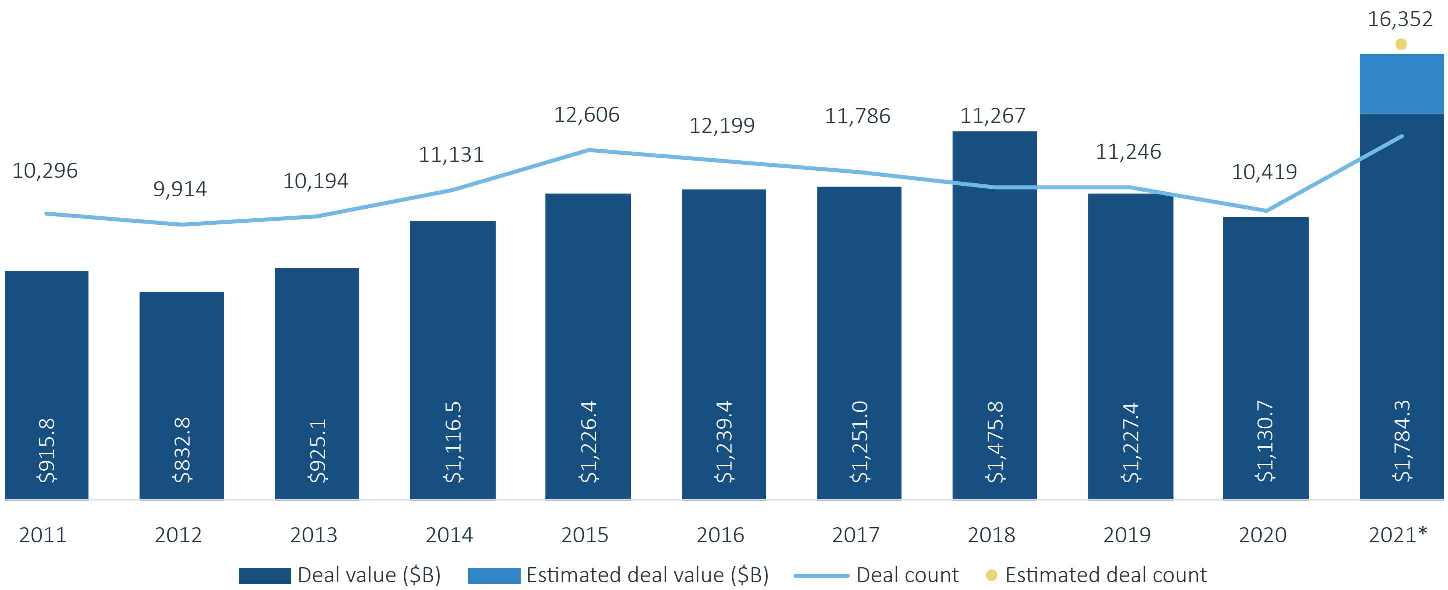
ESG will certainly be a theme. In 2021, ESG-related acquisitions more than doubled as CEOs looked to reshape their businesses around a low-carbon future. This is a mega trend that has only just begun—one that I predict will endure, just as the 20-year-long tech boom shows no sign of slowing. Companies continue to try to inorganically source technology solutions as they look to update their businesses; and I see no likelihood of that diminishing in the year ahead. Both tech and ESG M&A will be much discussed and sought in 2022.

In conclusion, 2022 looks set to be an exciting year for M&A; one in which global mega-trends will drive deals; but also one in which dealmakers worry about increased macro-economic risks and, as a result, look to pull the protective shroud of M&A insurance ever more regularly and tightly around their dealmaking shoulders.

Regional spotlights

European M&A

European M&A activity



Source: PitchBook
*As of December 31, 2021

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European M&A value and volume roared to new annual records in 2021. Approximately 16,352 deals closed, collectively worth $1.8 trillion—marking YoY increases of 56.9% and 57.8%, respectively. 2021 powered past the previous highs of $1.5 trillion set in 2018 and 12,650 deals set in 2015. In fact, 2021 marked the best European M&A market ever, with dealmakers quickly adapting to the pandemic's challenges and recognizing the once-in-a-lifetime market opportunity to put capital to work in helping to power their relentless pursuit of strategic advantage. A perfect mix of strong capital markets, rapid vaccine deployment, easing of pandemic-related restrictions, and persistent accommodative policy were the major factors driving the M&A boom.

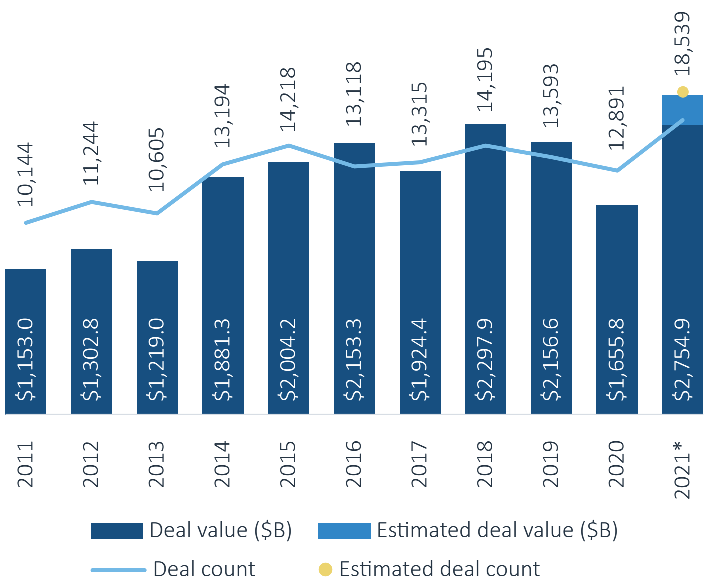
Dealmakers embraced digital due diligence, while vaccines limited severe cases of COVID-19 and allowed economies to reopen and return to growth—in part through M&A. Although concerns exist around rising COVID-19 cases, higher long-term inflation, and tightening policy, we expect 2022 to be another strong M&A year as buyers focus on digitizing businesses and gaining scale and/or capabilities through acquisitions. Financial buyers will look to deploy their mountains of dry powder; corporates will seek to put large cash balances to work; and SPACs will feel pressure to find a target within their 24-month deal timeframe. In addition, valuations could soften due to quantitative tightening and interest rate hikes led by the Bank of England, thus encouraging more M&A as buyers take advantage of lower prices.

Regions in Europe including DACH and the UK & Ireland are expected to see the biggest rises in M&A activity in 2022, according to CMS Law.[1] The new, three-party German government is anticipated to focus on digitizing and making Germany greener, which should promote more M&A opportunities. While the UK & Ireland region will continue to attract buyers due to its large set of fundamentally strong but undervalued companies, stable political backdrop thanks to the avoidance of a no-deal Brexit, and big consolidation opportunities coming from fragmented markets. That said, buyers will need to be aware of a tighter regulatory environment in the UK, as January 4, 2022, marked the enactment of the National Security and Investment Act, which allows the UK government to intervene in takeovers of UK-based companies in 17 sensitive sectors.

1: "Road to Recovery: European M&A Outlook 2022: A Study of European M&A Activity," CMS, September 2021.

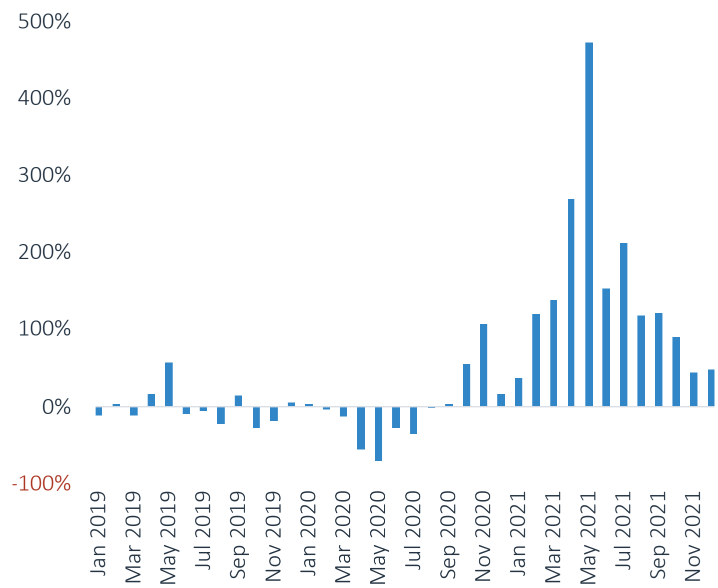
North American M&A

North American M&A activity



Source: PitchBook
*As of December 31, 2021

US Hart-Scott-Roldan premerger filings, YoY percent change*



Source: FTC and the Antitrust Division of the Justice Department
*As of December 31, 2021
Note: October 2020 to December 2021 numbers are preliminary.

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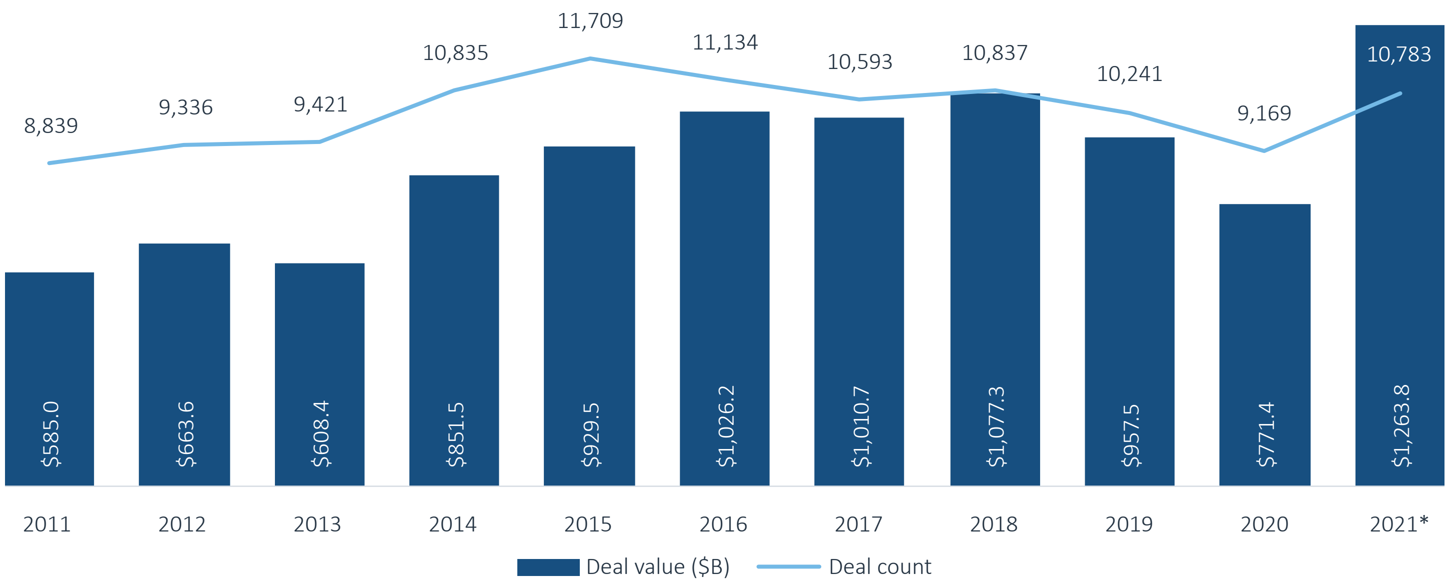
Economic resurgence paved the way for a record-setting 2021 in North American M&A, with 18,539 deals closing for a combined $2.8 trillion. The US and Canada have followed a similar trajectory, recovering their pre-pandemic GDP levels early in the year and, by the end of 2021, exceeding historical growth trendlines. Strong stock prices, low borrowing costs, and a positive economic outlook—inflation notwithstanding—spurred buyers. 2022 is unlikely to see a wholesale reversal of these trends, but interest rate hikes could increase the cost of capital and quash the bull run in public markets, thereby reducing firms' buying power. Canada's consumer price index rose 4.8% annually in December, while the same measure increased 7.0% in the US. The Federal Reserve intends to begin raising interest rates as soon as April 2022, while the Bank of Canada is expected to hike rates at least once by Q3, if not sooner.

North American M&A saw numerous massive acquisitions in 2021. Many of these, including the $39.0 billion acquisition of Alexion by AstraZeneca (LON: AZN), were in healthcare: Pharmaceutical and medical supply companies have benefited from increased healthcare spending and are using M&A offensively to keep abreast of emerging trends. Another key theme in North American M&A was logistics. The $31.0 billion tie-up between Kansas City Southern and Canadian Pacific Railway (TSE: CP), first announced in March 2021, now appears prescient as transportation prices and consumer retail activity remain elevated.

In 2021, US federal antitrust policy took center stage. Under new, hawkish leadership, the Federal Trade Commission (FTC) has announced several noteworthy policy shifts, including extending the scope of its antitrust review beyond market concentration effects. The Biden administration has also postured against consolidation in numerous industries including hospitals, meatpacking plants, and gas stations. However, regulators have simultaneously struggled to keep up with unprecedented deal volume. The sentiment among transaction lawyers, especially those focused on the middle market, is that the FTC's public moves toward greater antitrust scrutiny so far lack enforceability and are unlikely to significantly retard M&A activity. Thus far, the greatest impact has been on large tech deals: While some, such as Microsoft's (NASDAQ: MSFT) $19.7 billion acquisition of Nuance Communications, have sailed through federal review, Amazon (NASDAQ: AMZN), Apple (NASDAQ: AAPL), Google (NASDAQ: GOOGL), and Meta (NASDAQ: FB) are all navigating either active or anticipated antitrust actions.

Business products & services

Business products & services M&A activity



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

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Business products & services sees steady M&A activity: In 2021, 10,783 deals closed for a combined $1,263.8 billion. Deal value hit a new record, and deal count narrowly settled at the second-highest number of the decade. The sector accounted for 28.3% of the annual global deal value, a new high-water mark for the sector, as major trends such as supply chain improvement and ESG prompted various investments in the space.

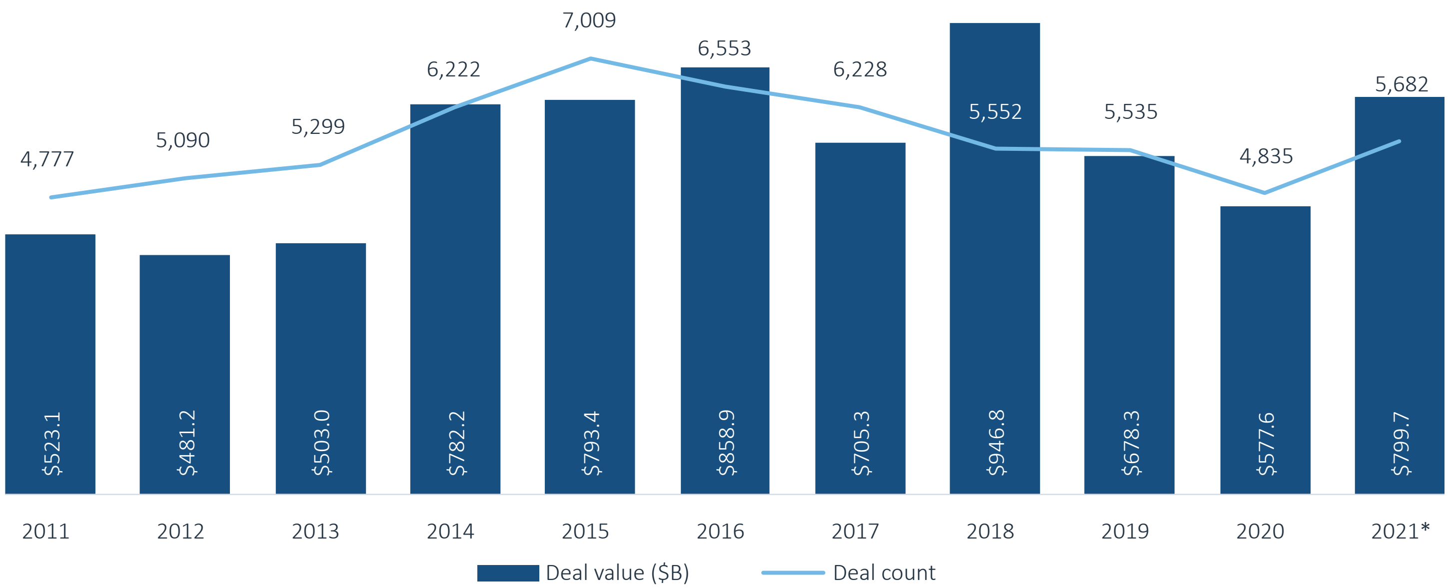
Mega-deals heighten M&A activity in transportation and logistics: Transportation and logistics M&A increased significantly during the year as companies focused on gaining more control over their supply chain and expanding for future growth. More strategic investors engaged in mega-deals to drive scale and expand product portfolio and geographic footprint. In August, transportation and logistics giant DSV Panalpina (CSE: DSV) acquired Global Integrated Logistics, the freight forwarding and contract logistics division of Agility (KUW: AGLTY), for $4.8 billion. The deal adds to DSV's global presence, strengthens competitiveness across air, sea, and road divisions, and positions the company as a one-stop shop for logistics needs. Similarly, in November, Mitsubishi HC Capital (TSE: 8593) completed its $1.1 billion acquisition of CAI International to build upon the company's logistics services and further its goal of becoming a top global player in the marine container leasing market.

ESG's prominence in investment decision-making grows: Deal deliberations increasingly involve ESG concerns as investors anticipate their impact on business strategies across various subsectors. In utilities, Veolia UK, a subsidiary of Veolia Environment (PAR: VIE), merged with Suez Environment (PAR: SEV) in a $31.1 billion deal in May after months of wrangling between the two France-based water and waste management companies. The two competitors joined with the prospect that the merger would better position them to innovate in growth areas such as environmental services and recycling and compete with new global challengers in China. However, the merger is currently facing an inquiry from British antitrust regulators after winning an EU antitrust approval earlier in the year. In December, Stantec (NYSE: STN), a global leader in sustainable design and engineering, acquired the North America and Asia Pacific engineering and consulting groups of Cardno (ASX: CDD) for $500.0 million to grow its environmental services footprint and increase exposure to US stimulus spending.

Sector spotlights

Consumer products & services

Consumer products & services M&A activity



Source: PitchBook | **Geography:** Global
*As of December 31, 2021

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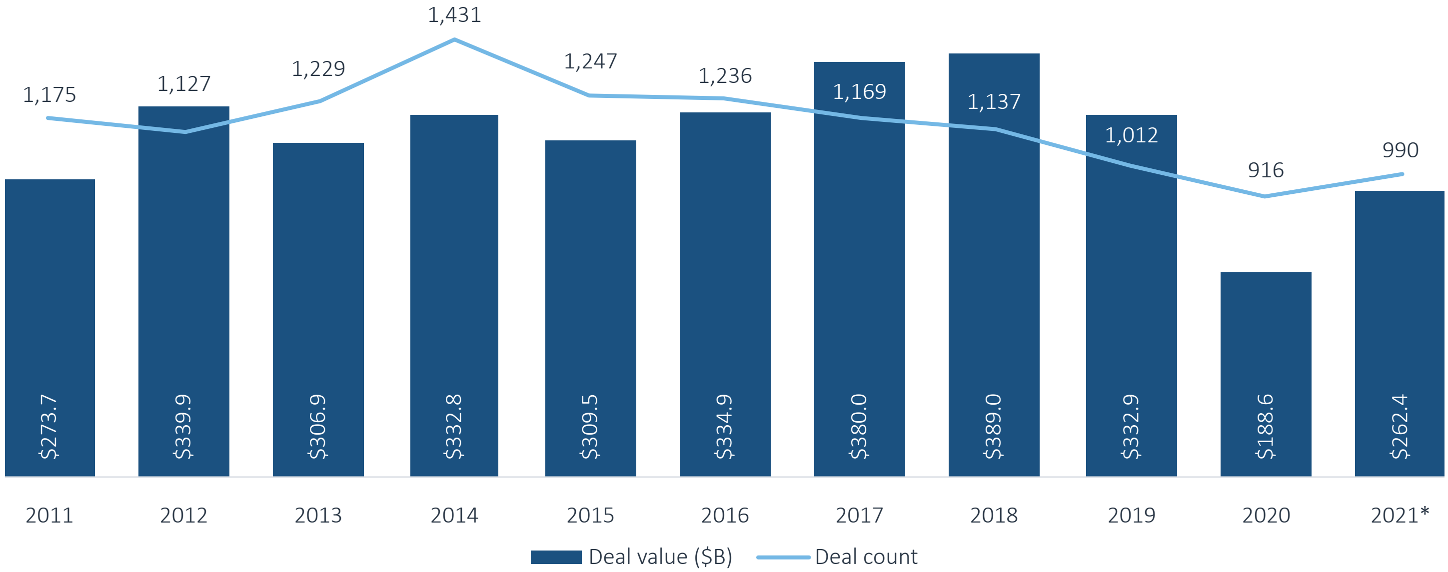
Consumer products & services M&A bounced back in 2021, outpacing pre-pandemic levels: In 2021, 5,682 deals closed worth for a combined $799.7 billion—marking YoY increases of 17.5% and 38.4%, respectively. After M&A value and volume declined from 2018 to 2020, the bounce back in M&A activity surpassed its five-year averages, while M&A value hit its third-highest number in over a decade. The uptick in deal value propelled the median deal size to a new peak of $35.2 million as rampant consumer spending from excess savings helped push valuations northward. A fundamental, long-term acceleration in the way consumers acquire goods and services in retail, leisure, and hospitality, combined with the zero-interest-rate environment, excess liquidity, and government stimuli, buoyed M&A activity in the space. Companies aimed to quicken the digitization process, expand on direct-to-consumer sales, and focus on ESG and sustainable offerings to drive growth, stay relevant, and strengthen resilience as the pandemic served as a turning point in consumer markets.

Portfolio optimization and reconstruction were at the heart of consumer M&A: As consumer behaviors drastically evolved in 2021, corporates sought to either partner with companies or buy assets to enter fast-growing niches or expand market share. For instance, as it accelerates its footprint into the online TV and film sector, Amazon acquired MGM Studios for $8.5 billion in Q2. 7-Eleven also bought Speedway for $22.0 billion in an effort to increase scale across the US retail convenience store market. Carveouts were another big theme of portfolio revamps, as corporates aimed to de-leverage or exit noncore assets. For instance, Yahoo, a subsidiary of Verizon Communications (NYSE: VZ), was carved out to Apollo (NYSE: APO) for $5.0 billion in Q3, as Verizon looked to pay down debt and reduce its presence in online media due to the industry's high costs, unprofitability, and deviation from the company's larger growth strategy. Finally, UK grocery chains experienced a big uptick in sponsor interest in 2021, due to their attractive economics, perceived undervalued assets, and large real estate footprint. Asda and Wm Morrison, both UK grocery chains, were acquired in 2021 by TDR Capital and CD&R, respectively.

Energy

Energy M&A activity



Source: PitchBook | **Geography:** Global
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Energy dealmaking recovers modestly: While the energy sector saw significantly more M&A activity than in 2020—990 deals closed in 2021 for a combined $262.4 billion—the year's dealmaking activity was still slow by historical standards. This is noteworthy given the sustained recovery in oil prices, which is expected to endure at least into the second half of 2022. Although some consolidation activity has taken place among smaller oil producers, including by PE funds, the oil majors are preoccupied with rehabilitating their stock prices and navigating the global energy transition—meaning that fossil fuel deals have been particularly sluggish.

Following COP26, clean energy M&A continues to accelerate: Much of the year's dealmaking in the sector, especially in Europe, was focused on renewable energy infrastructure, chiefly wind and solar. In the US, upstream and midstream oil and natural gas companies have made up the bulk of large deals, but smaller renewable energy assets are trading in the middle market. PE firms—and, crucially, their LPs—are looking to position themselves on the right side of the global shift toward renewables. However, soaring energy prices have put pressure on both the North American and European governments' clean energy agendas. Whether inflation will persist long enough to cause significant political backtracking and dampen renewables M&A activity remains to be seen.

European electricity utilities crippled by natural gas shortage: Since October, Dutch TTF natural gas prices have gyrated in the vicinity of €80 per barrel, compared with pricing levels around €10 to €30 for the past decade, with knock-on effects on other energy sources. Major European electricity suppliers buy and sell power years in advance, but smaller companies do not have the operating capital to hedge all their requirements. In the UK, where the consumer price of electricity is capped, several small power companies have gone bankrupt, with more expected to follow. Moreover, European governments, broadly committed to energy transition, are reluctant to prop up ailing fossil fuel companies, preferring instead to issue transfers to low-income households to help offset rising prices. Larger European energy suppliers are likely under too much financial strain to opportunistically acquire struggling competitors, but some PE funds may look to snap up assets at bargain prices.

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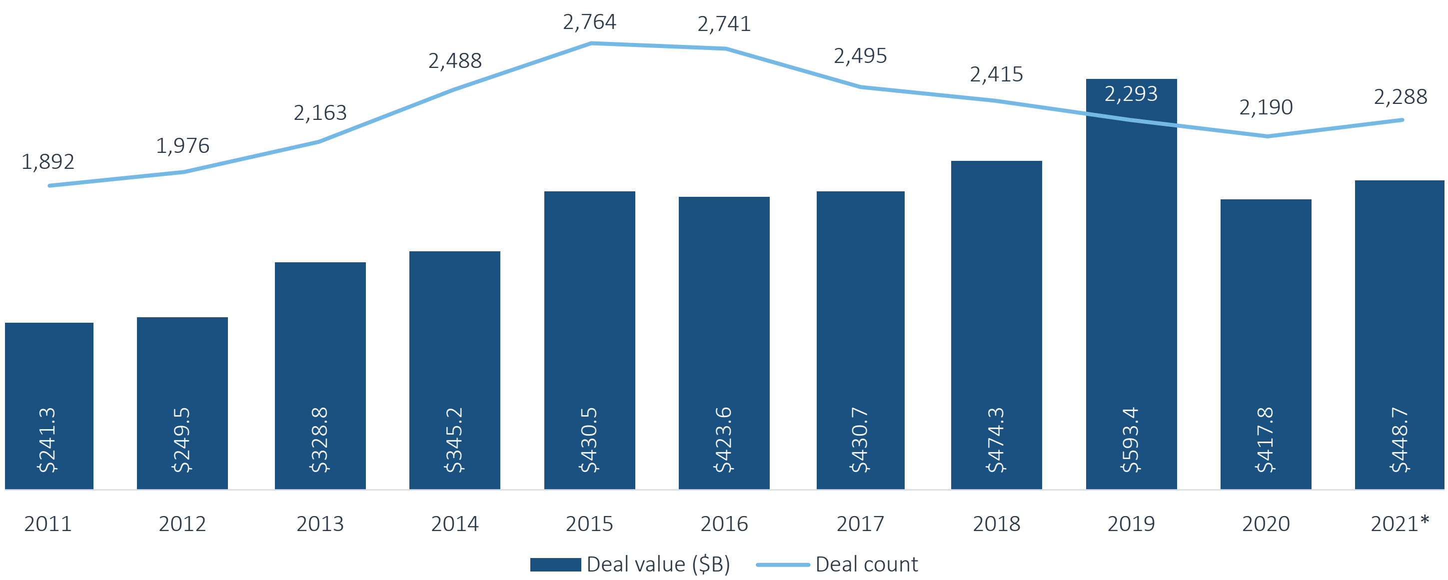
Sector spotlights

Financial services

Financial services M&A activity



Source: PitchBook | **Geography:** Global
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In 2021, financial services M&A value grew to its second-highest reading in over a decade: Overall, 2,288 deals closed, worth $448.7 billion in aggregate—marking YoY increases of 7.4% and 4.5%, respectively. The median deal size shot up to its highest-ever reading, at $70.3 million, driven by aggressive sponsors sitting on mountains of dry powder. These sponsors also recorded a new peak in financial services M&A, with 833 closed deals. Financial service companies used M&A as the main tool to digitize platforms, optimize cost structures, enhance ESG offerings, progress toward their net-zero targets, and grow revenues. Gaining strategic advantage and transforming businesses was a top priority for dealmakers, thus signaling a positive outlook for 2022 as these trends will persist.

Digital transformation is at the forefront of financial services M&A: Buyers are laser-focused on acquiring digital and financial technology (fintech) assets, most notably in the insurance technology (insurtech), regulation technology (regtech), payments, financial services IT, and cryptocurrencies spaces, to keep pace with aggressive technology adoption among consumers and businesses. The rationale for such transactions is either to gain exposure to a hypergrowth market to drive returns, or to digitize business models. Capital markets entities are acquiring regtech platforms to assist with navigating compliance and regulation. Insurers continue to focus on IT innovation to automate parts of the customer lifecycle, from renewals to claims. Investment banks continue to expand into cryptocurrencies through trading and research. And private capital groups are targeting buy-now-pay-later platforms, especially in Europe, as the model gains traction as a hypergrowth niche.

ESG factors are now a core focus area in financial services M&A: Insurers, banks, and asset managers all recently announced their commitment to the net-zero emissions targets by 2050, including Barclays (NYSE: BCS), Allianz (ETR: ALV), and Nomura Asset Management. To hit such targets, companies will use ESG M&A, and this will ultimately redefine how companies lend capital, buy assets, and manage risk. Business strategy, performance, and reputation will also be heavily affected by consumers and governments' shared desire for sustainable investments. Moreover, clear ESG reporting from companies—most notably through the EU taxonomy—will both assist in providing investor transparency and allow companies to focus more intelligently on meeting targets.

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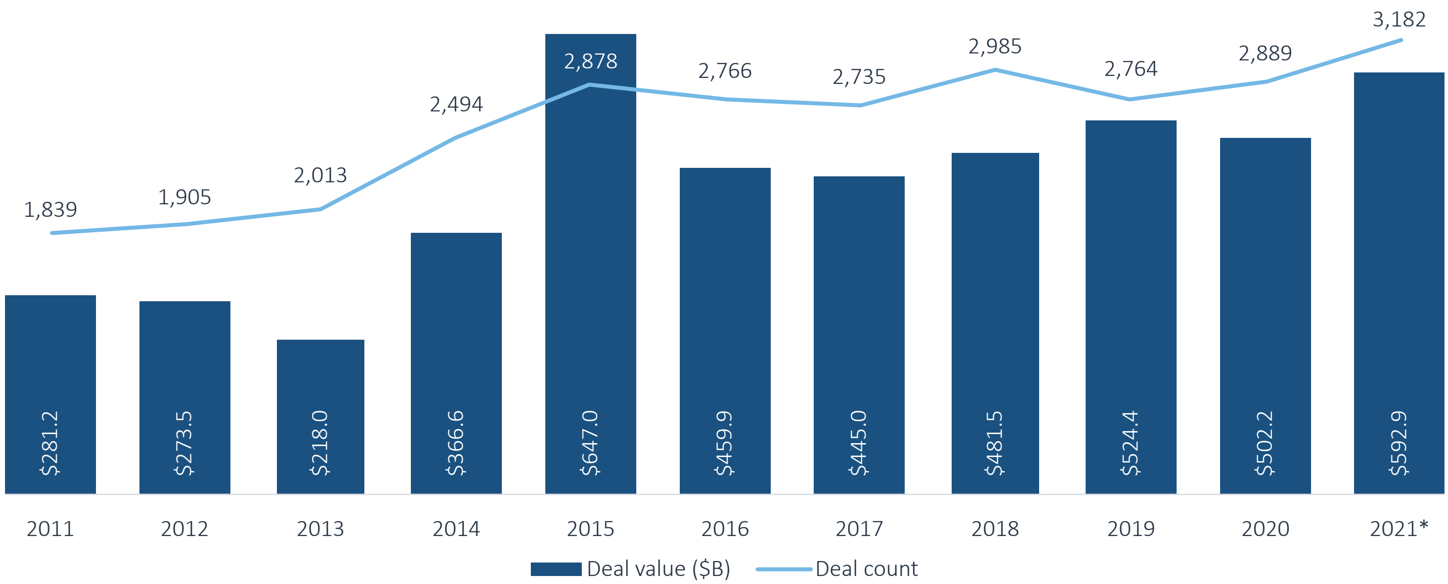
Sector spotlights

Healthcare

Healthcare M&A activity



Source: PitchBook | **Geography**: Global
*As of December 31, 2021

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Healthcare M&A continues to accelerate: Healthcare dealmaking followed its multiyear growth trajectory in 2021: 3,182 deals closed for a combined $592.9 billion. Underlying drivers include aging populations in developed countries and rising household incomes in developing countries. In countries where national health systems were strained by the pandemic, private health systems flourished, while consolidation pressure increased among small providers. Vertical acquisitions of providers by insurers have also accelerated due to the potential for risk control and cost savings through preventive care.

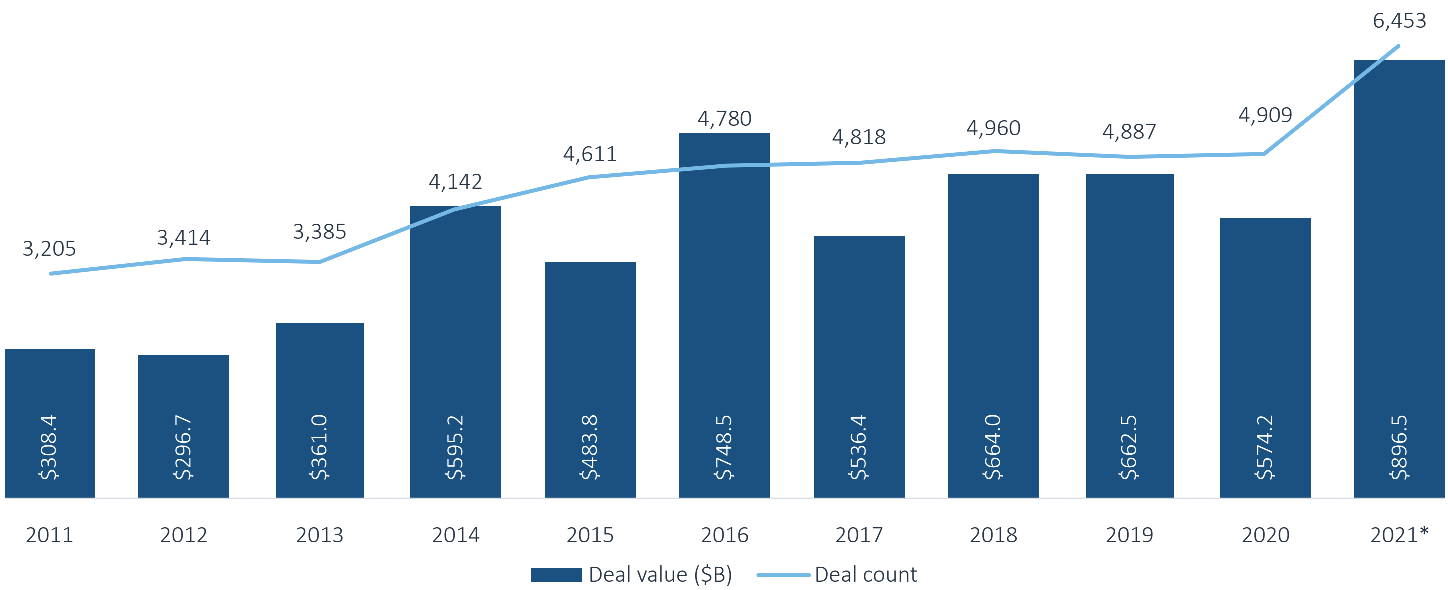
Pharmaceutical companies pursue drug development and diversification: Several of the year's largest deals were pharmaceutical company acquisitions of contract research organizations; bringing these third-party contractors in-house can help cut drug development costs amid fierce competition. As generics and biosimilars create downward pricing pressure for drugs treating common ailments, drugmakers focused on rare diseases also commanded substantial price tags.

Retail giants muscle into the healthcare arena: Retailers are banking on a fundamental shift in the site of care away from hospitals, with patients becoming more accustomed to digital healthcare and/or healthcare outside traditional medical settings. Walgreens Boots Alliance, currently playing catch-up to CVS' (NYSE: CVS) integrated payer-primary care-pharmacy model, has been particularly active, closing or announcing three healthcare-related deals in 2021. Walmart (NYSE: WMT) purchased telehealth provider MeMD in June, while Best Buy (NYSE: BBY), which is pursuing the home elder care market, purchased remote patient monitoring company CareCentrix. We anticipate additional acquisitions from other retailers making healthcare bets in the coming years.

Healthcare IT moves toward cloud integration: This is exemplified by two of the year's largest healthcare deals, Microsoft's $19.7 billion acquisition of healthcare-focused AI firm Nuance Communications and Oracle's (NYSE: ORCL) $28.3 billion acquisition of electronic health record (EHR) giant Cerner (NASDAQ: CERN). Both acquisitions build upon existing partnerships and are expected to focus on integrating voice assistant technology into EHRs in the near term. Parallel efforts by Google and Amazon to sell cloud services to hospitals augur more deals amid intense competition for the hospital IT market. Meanwhile, software providers for outpatient medical groups have also seen elevated multiples and significant M&A interest as EHR, revenue cycle management, and practice management providers acquire additional products to create integrated, one-stop-shop platforms.

Information technology

IT M&A activity



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Tech ends the year at a frenetic pace: For 2021, IT M&A activity set a phenomenal record in both deal count and value, completing 6,453 deals at a cumulative value of $896.5 billion—a more than 50% increase from 2020's deal value. Strong corporate and private equity balance sheets drove the sector's robust deal activity, and buyers used tech M&A to keep up with the rapid pace of digitization across industries and to differentiate themselves with tech capabilities. While IT enjoyed high valuations in recent years, higher interest rates may dampen multiples, which are often discounted far into the future. In recent months, high-growth tech shares have started to underperform, with markets pricing in multiple interest rate hikes from the Fed in 2022. Any downturn in public tech shares is likely to be a leading indicator of lower IPO and M&A activity and thus bears watching.

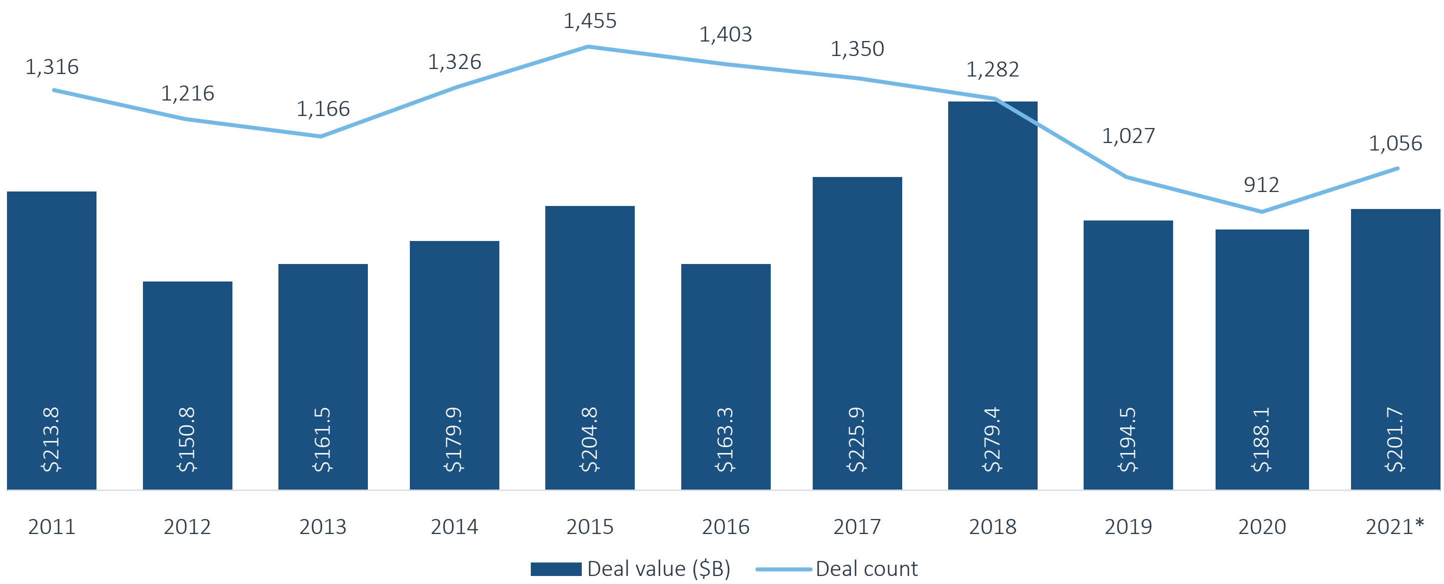
Looming regulatory scrutiny threatens the sector: After consolidation plays and gigantic M&A deals triggered calls for increased scrutiny on potential monopolies, government agencies across the globe have been more aggressive in their antitrust enforcement in various industries, including tech. In the US, the FTC sued to block the $40 billion Nvidia-Arm merger (NASDAQ: NVDA) in December, which would allow the combined firm to control computing technology and designs that competitors would need to develop their own semiconductor chips. Across the pond, the EU is seeking to pass a sweeping overhaul of regulations for tech companies, including the Digital Markets Act, which lays out rules for tech giants to follow to prevent their domination of digital markets and corresponding fines for violations.

Communications technology continues to evolve: Digital communication is undergoing additional technological transformations to increase automation and provide data analytics and predictive models of consumer behavior. In December, cloud communications leader Sinch (STO: SINCH) acquired email delivery platform Pathwire for $1.9 billion to deliver transactional and marketing emails at scale with tools for testing and analytics to increase engagement. In October, Qualtrics (NASDAQ: XM) acquired Clarabridge for $1.1 billion to add omnichannel conversational analytics onto its experience management platform. Clarabridge's AI-driven technology allows companies to discover and analyze feedback from indirect sources such as social media posts and support conversations to provide better experiences for employees and customers.

Sector spotlights

Materials & resources

Materials & resources M&A activity



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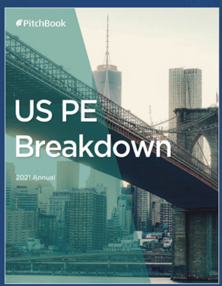
Materials & resources M&A still sleepy: We have been predicting a turnaround in the lackluster materials & resources space for several quarters, and it is not yet clear whether one is beginning to materialize. Although the year's deal figures inched above the totals from 2019 and 2020, with 1,056 deals closing for $201.7 billion all told, this occurred against a backdrop of runaway deal activity overall. The shape of global economic recovery from the pandemic has unevenly affected materials & resources companies. For instance, mining firms are benefiting from a bull run in commodities prices. However, they also face labor shortages and growing ESG-related scrutiny and overall have remained cautious about expanding their operations through M&A.

Mid-value-chain manufacturers maneuver: In 2020, component manufacturers and metal processing companies that found themselves overexposed to pandemic-affected end markets struggled. In 2021, many end markets recovered, but rising raw materials, energy, labor, and transportation costs created new challenges. Manufacturing companies with sufficient access to capital are now pursuing M&A in order to diversify their customer bases and pivot toward resilient, high-margin end markets such as healthcare and defense.

Consumer demand growth creates a boon for chemicals, packaging: Both the chemicals and packaging industries' fortunes tend to follow broad economic growth patterns. Robust retail activity—much of it now fulfilled through e-commerce channels—has reversed the fortunes of packaging firms that saw demand temporarily evaporate in mid-2020. Companies with significant green packaging product lines are particularly well positioned in the current environment. In chemicals, plastics and specialty chemical manufacturers are benefiting from tailwinds in several key end markets, including consumer goods, pharmaceuticals, construction materials, and electronics. Carveouts, often with PE buyers, continue to play a central role in chemicals M&A as large companies take advantage of healthy deal multiples to refocus on their core business lines.

Additional research

Global private capital



2021 Annual US PE Breakdown

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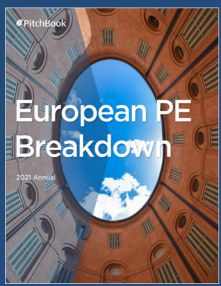

2021 Annual European PE Breakdown

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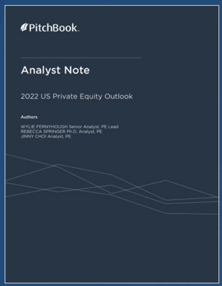

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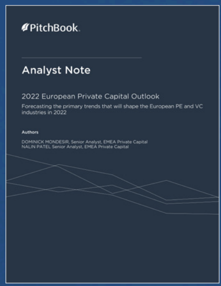

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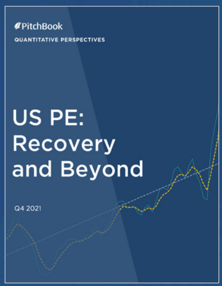

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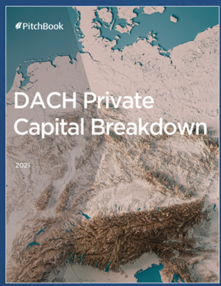

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