Global dealmakers 2022:
M&A market update

Now, for tomorrow

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As we head into the third year of the pandemic, we can see dealmakers better able to manage the climate of uncertainty, and more confident in the way they price in risk, volatility, and complexity. The market is better braced for temporary, local shocks, and we are not seeing recent waves, restrictions or lockdowns as disruptive to dealmaking as past cycles. This translates to a kind of determined optimism among dealmakers and targets, as they plough through to get deals done.

Foreword

Global dealmakers defy disruption from COVID-19 variants and other macro uncertainties, achieving growth and record levels of M&A in 2021.

When we conducted our annual survey Global dealmakers 2021: Cross-border M&A outlook at the half-year mark in 2021, 71% of respondents believed M&A would maintain its upward momentum – with optimism that the rebound then being experienced from the pandemic could translate to a strong year ahead. Now, six months later, we see that optimism was well founded.

At its close, 2021 was a year for the record books: US$5.9tn in deals, a 62% lift from 2020 and the highest value amount in more than a decade. Deal totals also rose, albeit more modestly, to hit 34,128 (0.4% above 2020).

There are good reasons to expect healthy levels of M&A going forward. As the global economic recovery continues, many corporates are looking to refocus their strategy for the changed market landscape, particularly in the context of digital transformation. Private equity investors, with unprecedented pools of capital at their disposal, provide tough competition, even for the largest deals.

Moreover, new imperatives for M&A have emerged. The need to confront climate change and other societal issues is now firmly on the boardroom agenda. The global battle for talent is forcing many organisations to think again about how they secure the skills they now need.

However, nothing is certain. The COVID-19 crisis is not over, with many countries forced to reintroduce lockdown restrictions. And there are other headwinds too, from the dramatic escalation of tensions in Eastern Europe to mounting concern about corporate debt in China. Still, the outlook for M&A has certainly improved from this time in 2021. Last year's stellar performance may prove difficult to match, but the appetite for dealmaking remains keen.

In this report, we drill down into the detail of last year's M&A markets, identifying which regions and sectors have attracted the most attention — and, just as importantly, we ask whether the recovery can be sustained in 2022.

[1] The Global Dealmakers survey covered 150 respondents from North America, Europe and Asia Pacific. Research was conducted between June and July 2021.

Contents

About this report: Data in this report comes from Dealogic and was compiled on 15 January 2021.
All figures are in USD unless otherwise stated.

M&A snapshot 2021

US$5.9 trillion Global M&A value in 2021, up from US$3.7tn in 2020.

34,128 deals Global M&A volume in 2021, up from 34,006 deals in 2020.

77% increase in annual global cross-border deal value.

5% increase in annual global cross-border deal volume.

31%
of deals in 2021 were in the mid-market, compared to only 25% in 2020.

North America
was the top geography by M&A deal value in 2021 at US$2.9tn.

Asia Pacific
was the top geography by M&A deal volume in 2021 at 11,589 deals.

Tech M&A
accounted for 33% of deal value and 36% of deal volume in 2021.

69%
increase in mega deals (valued greater than US$500m) in 2021.

Global M&A hits new record — and shows no sign of slowing in 2022

Strong economics and key drivers powered dealmaking in 2021 and many of these factors will continue to fuel the feverish pace of M&A.

Global M&A reached an all-time high of US$5.9tn in 2021 as dealmakers charged ahead with bigger and bolder deals in a frantic search for growth and stability. The record value of M&A reflected, at least in part, a growing number of larger deals. Deal volumes also ticked upwards in 2021, with 34,128 transactions worldwide compared to 34,006 in 2020, although this remains below pre-pandemic volume.

Nevertheless, the M&A market is once again in rude health. At a macro level, this reflects the recovery of the global economy last year — and expectations of further growth to come. The International Monetary Fund estimates that world output rose by 5.9% in 2021, following a contraction of 3.1% over the previous year. For 2022, it is now forecasting 4.9% growth.

Underpinning that story, central banks worldwide have kept monetary policy unusually loose to support recovery, so financing has rarely been as affordable. In the past two years, US Treasury yields have not exceeded 2%, and were below 1% for much of 2020.

There are several structural and strategic drivers also at play in the M&A market:

Cross-border M&A

Many corporates are looking for ways to regain momentum. In a low interest rate environment and with many economies still facing stiff headwinds, executives anticipate only modest organic growth. Accordingly, they are turning to international M&A to enter new markets and geographies. Cross-border dealmaking activity rose markedly and outpaced domestic transactions last year.

ESG

The importance of environmental, social and governance (ESG) factors is another sweeping trend. With disparate groups of stakeholders – governments, regulators, investors, customers, and employees – demanding new focus on issues such as sustainability and diversity, many corporations have been forced to reconsider their portfolios. Increasingly, they are committing to adapt deal strategies to sustainability and long-term value creation.

Corporate divestitures

Corporations are also keen to exit businesses no longer delivering growth, leading to a surge in divestments. The age of the conglomerate appears to be drawing to a close: even General Electric, the original industrial behemoth, has announced plans to split into three separate businesses. This has led to some strong opportunities as well-credentialed assets have come up for sale.

Private equity and SPACs

Investors are also driving M&A activity, providing stiff competition for corporates, including on large transactions that might once have been considered out of reach. The private equity (PE) sector continues to have dry powder to deploy. It came into 2021 sitting on US$1.9tn of cash, and while some of that money has been spent, PE funds raised an additional US$714bn last year. Special purpose acquisition companies (SPACs), which have raised US$235bn since the start of 2020, have also entered the M&A fray.

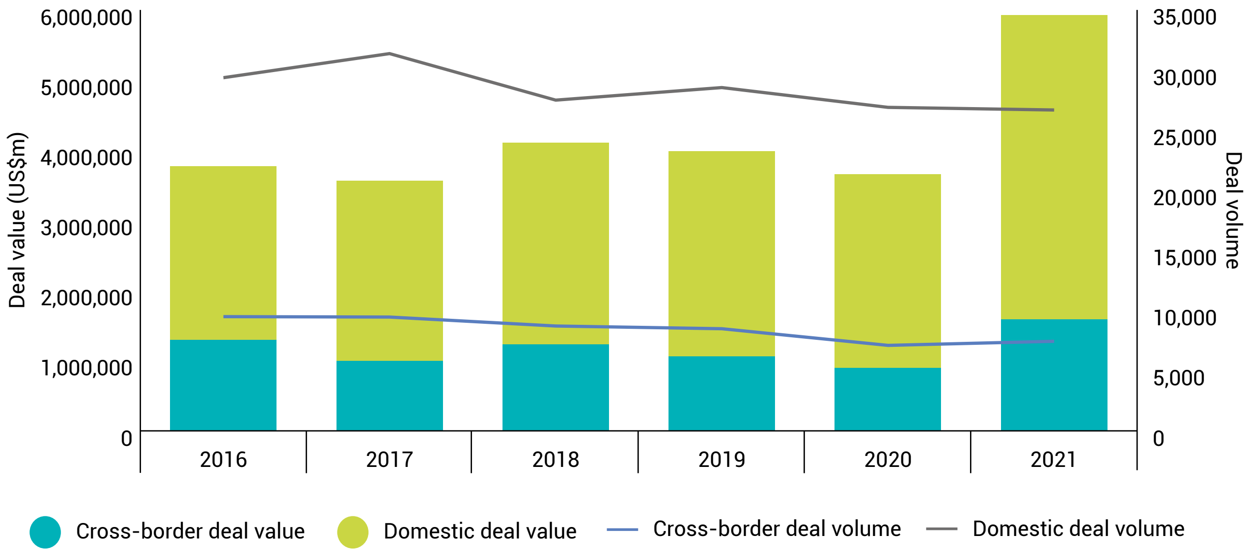
The war for talent

COVID-19 has led to the “Great Resignation”, with millions of workers worldwide rethinking life and work choices. A crisis that began amid fears of mass unemployment is now triggering labour shortages in developed economies. Dealmakers are turning to M&A to solve their talent problems.

Mega deals

With growing numbers of companies now looking to take genuinely transformative decisions about the future of their businesses, mega deals have become more common. The number of M&A transactions with a value of at least US$500m rose by 69% in 2021 compared to the previous year. Organisations’ leaders are increasingly ambitious, embracing M&A as a route to rapid and substantive change. This is one

Global M&A: Domestic and cross-border deal totals



Global M&A

62%

increase in global deal value in 2021 (US$5.9tn) from 2020 ($3.7tn).

0.4%

increase in global deal volume in 2021 (34,198) from 2020 (34,006).

reason why deal values overall jumped so sharply last year: there were more mega deals. Mid-market transactions also climbed as dealmakers leveraged the strong fundamentals and track records of these businesses to expand into new markets (which we explore in detail on page 8).

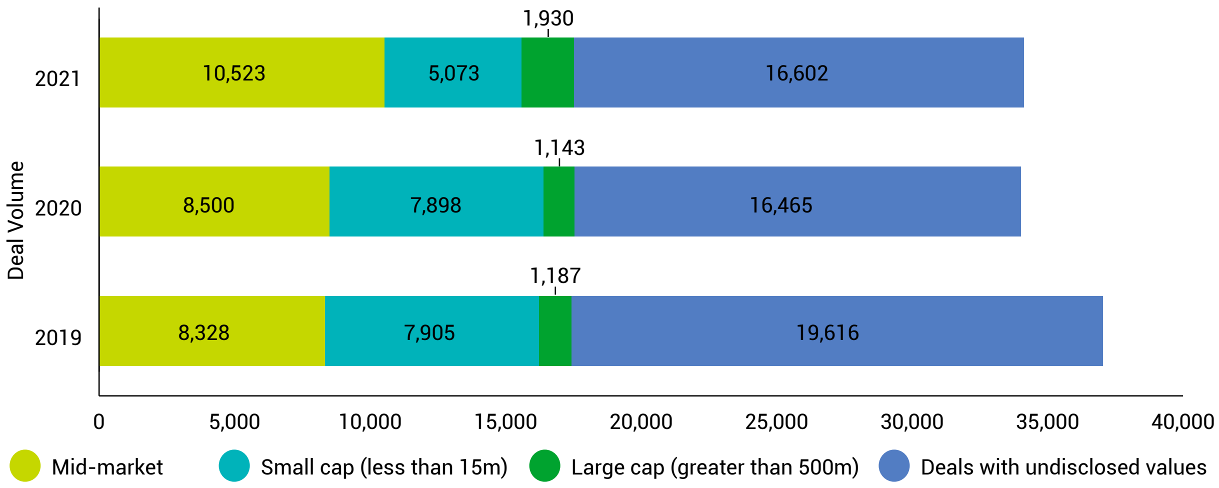
Outlook 2022

With each of these factors underpinning deal activity, there is good reason to expect M&A to grow in 2022 and beyond. None of these drivers appears to be dissipating in strength; indeed many are accelerating. The ESG agenda, for example, was given extra impetus by the COP26 climate change summit in Glasgow in November 2021. The imperative for digital transformation is only gaining momentum. And with the recovery in many economies following the bounce-back from the pandemic, for many organisations cross-border opportunities represent the best opportunity to grow.

Moreover, new factors are emerging. For one thing, there is the growing possibility of distressed M&A. While governments protected corporates during the COVID-19 crisis, offering a range of generous supports, most are now stepping back, and distressed dealmaking is now on the increase. This may be a notable M&A theme for 2022.

As recent history continues to demonstrate, challenges can arrive abruptly and upend expectations. This was the case with the COVID-19 pandemic, and more recently with the dramatic escalation of events in Ukraine. Indeed, the escalation into war in Ukraine and the fallout from sanctions, higher energy costs and wider uncertainty, once again has the potential to reshape the dealmaking environment.

Global M&A: Deal size breakdown (Deal volumes)



Mid-market M&A spotlight

Dealmakers set their sights on mid-cap deals to fast-track growth and value creation.

More than half of respondents (53%) in our annual outlook said mid-market deals would drive global M&A in the year ahead — and totals for 2021 show these predictions are rapidly becoming reality. In both volume and value terms, mid-market M&A (deals valued between US$15m and US$500m) rose in 2021 to some of the highest in more than a decade. Mid-market deals in 2021 accounted for 31% of global transactions, increasing from 25% in 2020.

A majority of dealmakers (80%) pointed to the value derived from these mid-cap transactions as a key driver, yet other factors are also taking shape to propel deals in this segment in the year ahead:

Strong track records

Dealmakers have traditionally turned to mid-market deals as a source of fast-tracked growth. These companies, having successfully grown from start-up to mature businesses, typically have strong, positive fundamentals to add value to larger organisations. Their implementation and uptake of new technologies in many cases has allowed them to excel and become leaders in their business spaces. As the pandemic continues to put pressure on companies to grow, many are turning away from small-cap plays to mid-market deals to enhance their growth into new product segments and geographic markets.

Increasing competition

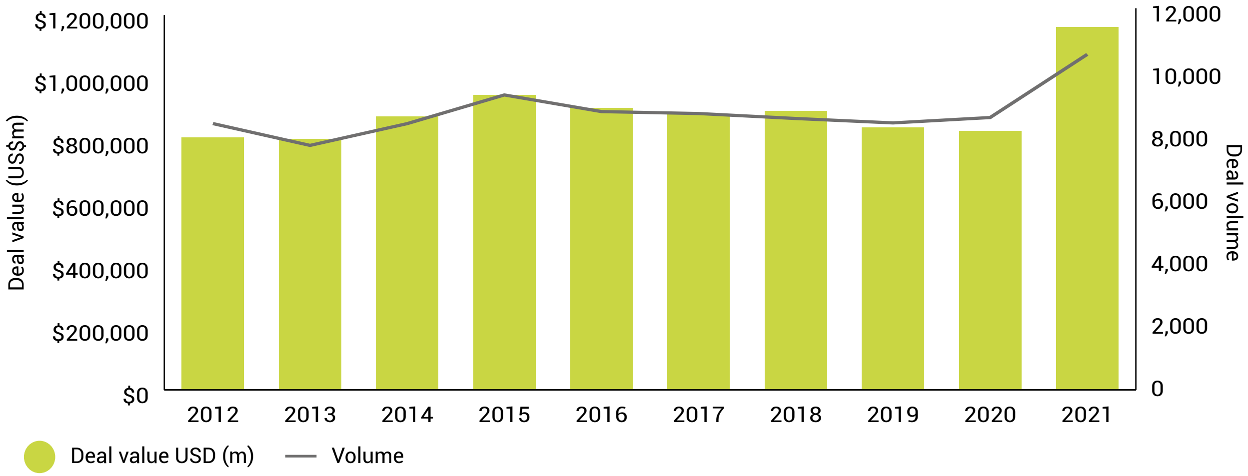
Interest from PE buyers has helped propel mid-market deals. The power of their dry powder has therefore given this area of the market a significant lift. Mid-market targets have likewise become increasingly popular among corporations, with many prioritising exposure to high-growth markets or acquiring new technologies — rather than looking for blockbuster consolidations with legacy competitors — by focusing on smaller targets.

Regulatory advantages

Mid-market deals are also more straightforward from a regulatory perspective. That is particularly relevant in the context of the tougher line on dealmaking that competition authorities are currently taking in key markets. In the US, the Federal Trade Commission warned last year that it would take a more aggressive approach to scrutinising deals, in line with President Biden's commitment to promote competition. In Europe, deals such as Aon's proposed US$30bn takeover of Willis Towers Watson and Alimentation Couche-Tard's US$20bn bid for Carrefour were abandoned last year following regulatory interventions.

> Mid-market deals have proved their value as a sweet spot for dealmakers looking for targets big enough to deliver value and growth yet not so big that they become unwieldy additions to portfolios or require additional scrutiny by regulators. It may be a seller's market, but buyers are increasingly wary of paying over the odds for a potentially risky target while outlooks remain uncertain.

Global mid-market M&A



Valuations

It is also possible that pricing concerns are scaring bidders off the largest transactions following a sustained bull run in global stock markets. In the US, the blue-chip S&P 500 Index hit a series of new highs last year, prompting warnings that large-cap stocks were valued at a level relative to earnings not previously seen in 96% of quarters going back more than 140 years. By contrast, mid-market companies – including unlisted businesses – have looked to offer better value.

US$1.2tn

Mid-market value in 2021, a 40% increase from US$829bn in 2020.

10,523 deals

Mid-market volume in 2021, a 24% increase from 8,500 deals in 2020.

Regional focus

Cross-border deals remain front and centre for global dealmakers pursuing expansion strategies in key markets.

Dealmaking between regions continues to be a major theme shaping global M&A trends. For 2021, cross-regional deal values rose 73% from the previous year to hit US$1tn, with volumes likewise lifted, albeit by a more modest year-on-year increase of 7%.

North America was both the top deal market and the largest cross-border bidder region in 2021, with outbound values increasing 111% (US$245.9bn) from the year before on the back of a 13% increase in deals (1,459). Asia Pacific and European bidders also spent more in offshore markets (68% and 34%, respectively), although deal volumes decreased for the former by 4% while increasing for the latter (9%).

In terms of target markets, the emerging world saw the greatest year-on-year increases in value, led by Africa (a 789% uplift in value despite a 58% fall in volume) and the Middle East (763%). Asia Pacific, likewise, saw values rise by 154% and volumes by 10%.

North America: Leading the rebound

North American M&A bounced back strongly in 2021, though deal volumes have yet to return to pre-pandemic levels. Overall, North America last year recorded 10,795 deals worth US$2.9tn, an increase of 14% by volume and a remarkable 80% by value, compared to 2020.

Still, while last year's deal values hit an all-time high, volumes were lower than 2019, which recorded 10,985 transactions. In that context, there is scope for further recovery in 2022.

Positive factors driving the US market last year included generous stimulus measures for the US economy from the Biden administration, as well as the Federal Reserve's ongoing determination to keep interest rates low and provide support through quantitative easing. The macroeconomic backdrop should remain supportive, even as policymakers tighten monetary policy to counter inflation; the International Monetary Fund expects growth of 5.2% in the US during 2022, and an expansion of 4.9% in Canada.

One continuing theme in the North American deal space is the rising prominence of environmental, social and governance (ESG) themes. With President Biden more committed to environmental targets than his predecessor, business leaders are under pressure to respond on a wide range of issues. Last year saw ESG or sustainability mentioned in 4.3% of deal announcements in North America, up from 3.2% in 2020 and less than 2% in 2019.

Europe: Proceed with caution

Europe's M&A recovery has been less dramatic. Deal totals last year were down from 2020 and a far cry from pre-pandemic figures. Still, deal values rose sharply, up 50% to US$1.35tn, and are now in pre-pandemic territory.

To some extent, confidence was undermined by the slower rates of growth seen across much of Europe last year, though the UK was an exception. Another issue, particularly in the first half of the year, was that countries such as

Germany and France were slow to roll out COVID-19 vaccines and reopen their economies, attracting criticism from the World Health Organisation.

However, the picture changed in the second half, as vaccination programmes accelerated. The pace of M&A picked up notably across the year, with a series of mega deals announced and fierce competition for the most highly prized assets. Deals such as the US private equity firm Clayton, Dubilier & Rice's acquisition of supermarket group WM Morrisons ended up in an auction process.

However, the outlook for 2022 is now less certain. Already badly hit by the Omicron variant, which forced some countries to introduce tougher restrictions, war in Ukraine has abruptly reshaped the political and economic landscape. It remains to be seen what the impact of the war — and accompanying energy price rises, supply chain disruption and reconstruction costs — will mean in the short- or long-term for European dealmakers.

Asia Pacific: Strong economics

Asia Pacific was the busiest of all deal markets last year, with 11,589 transactions, ahead of both North America and Europe, although Asia Pacific M&A volumes were down slightly on the previous year. Deal values, by contrast, did register a year-on-year increase — collectively worth US$1.35trn, 39% higher than in 2020 — and well above the pre-pandemic level of 2019.

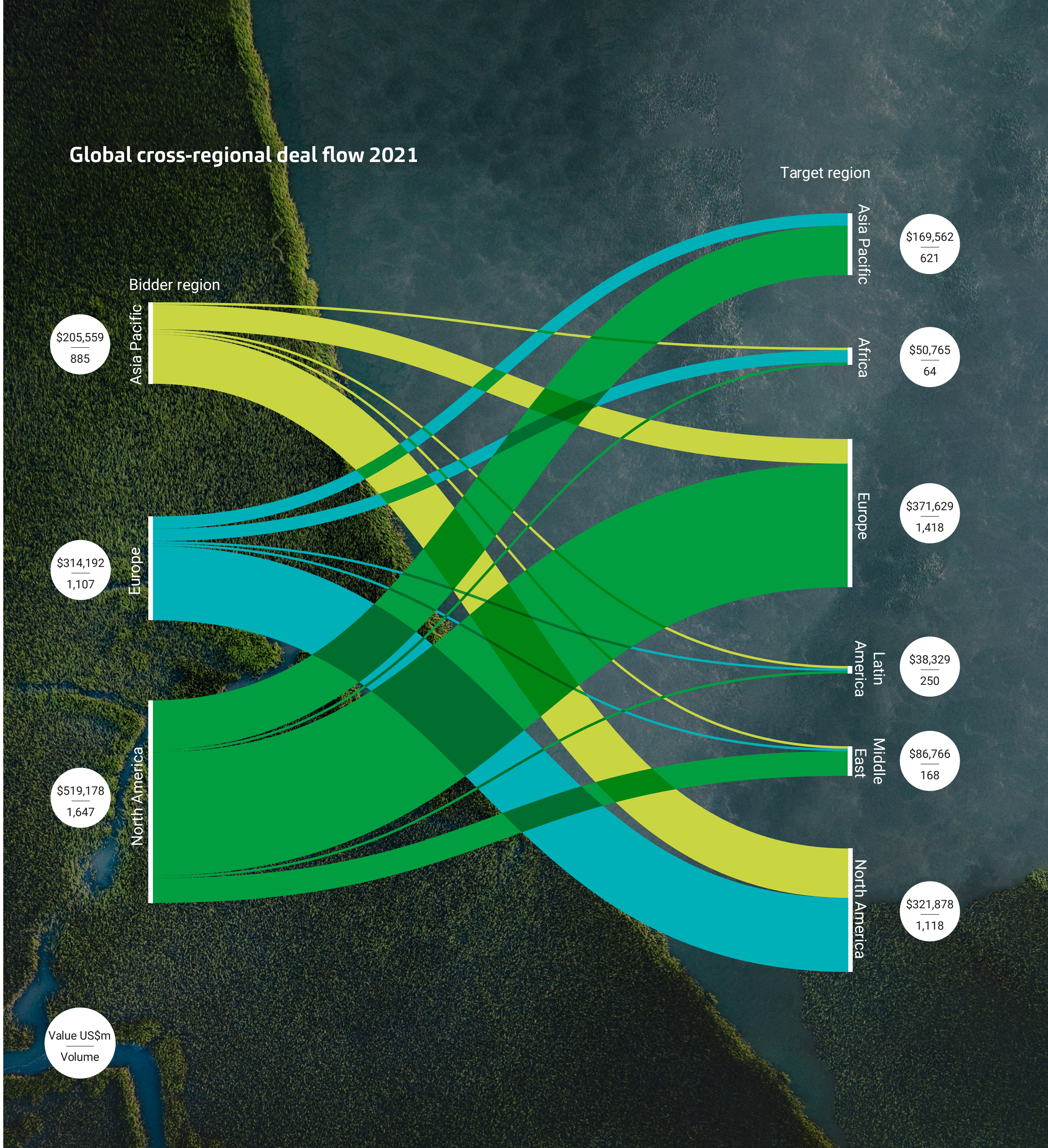
Countries in Asia Pacific have led the way in recovering economically from the impacts of the pandemic. The International Monetary Fund estimates that emerging and developing Asian countries saw GDP growth of 7.2% last year, led by India and China with growth of 9.5% and 8.0% respectively. The IMF is forecasting more modest growth rates for 2022, but still expects the region to expand by more than 5%.

Tech deals led the way in the region, with a string of large deals involving global acquirers tapping into APAC innovation. For instance, the special purpose acquisition company Altimeter paid US$37.7bn for Singaporean "super app" company Grab while US payments specialist Block paid US$26.6bn for Australia's Afterpay. Industrials and chemicals businesses also continue to be in demand, as the region's manufacturers respond to rising global demand.

Potential headwinds in the region include the uncertainties around China, where policymakers are concerned about indebtedness in the banking sector. A government regulatory crackdown on several sectors has also unnerved some investors.

Nevertheless, the M&A outlook remains promising as global players focus on the potential spending power of APAC's burgeoning middle classes and the innovation seen across the region.

> Bidders are impressed by the M&A opportunities for innovative and technology targets in Asia Pacific and, on the back of a few substantial sales, dealmakers are turning their attention to the next tier of innovators to find targets for 2022. When compared to markets such as North America, the technology sector here remains relatively untapped and has significant potential for value creation.



Sector watch

Digital transformation continues to propel dealmaking, although ESG and fallout from the pandemic are driving interest in key sectors.

Tech: Race to the top

Tech deals have continued to dominate thanks to COVID-led acceleration of trends such as the move to online retail and the growth of cloud-based remote working, as well as soaring demand for home entertainment streaming and the telecoms capacity needed to enable the shifts. Businesses in every industry now recognise the imperative for digital transformation and are scrambling to secure the technology and talent that can speed their progress. Within the mid-market, the race to snap up innovative businesses with potentially transformative IP has been a key driver of increasing competition.

Energy: The ESG imperative

Significant dealmaking in the energy sector reflects a strong recovery for commodity prices, with global demand now picking up. However, another important theme is emerging. As the world struggles to confront the challenges of climate change, there is growing competition for sustainable businesses in areas such as renewable energy. In the mid-market, where more of these greener companies are to be found, EMU transactions accounted for 11% of global M&A deal volumes last year and 13% of deal values.

Pharma: A boost of interest

The pharmaceutical industry has naturally captured dealmaker attention during the pandemic, as companies in this space develop the vaccines and treatments required to ensure the world can escape the crisis. More broadly, trends such as the rapid expansion of the biotechnology sector, the rise of digital healthcare, and increasing demand for medicines and other drugs in emerging economies with fast-expanding middle-class populations, are all reshaping the industry.

The result is ongoing interest in M&A: pharma accounted for 10% of global M&A last year, by both volume and value. In the mid-market, where many of the most innovative pharma, biotech, and healthcare businesses are to be found, the sector accounted for 13% of deal volumes in 2021 and 11% of deal value.

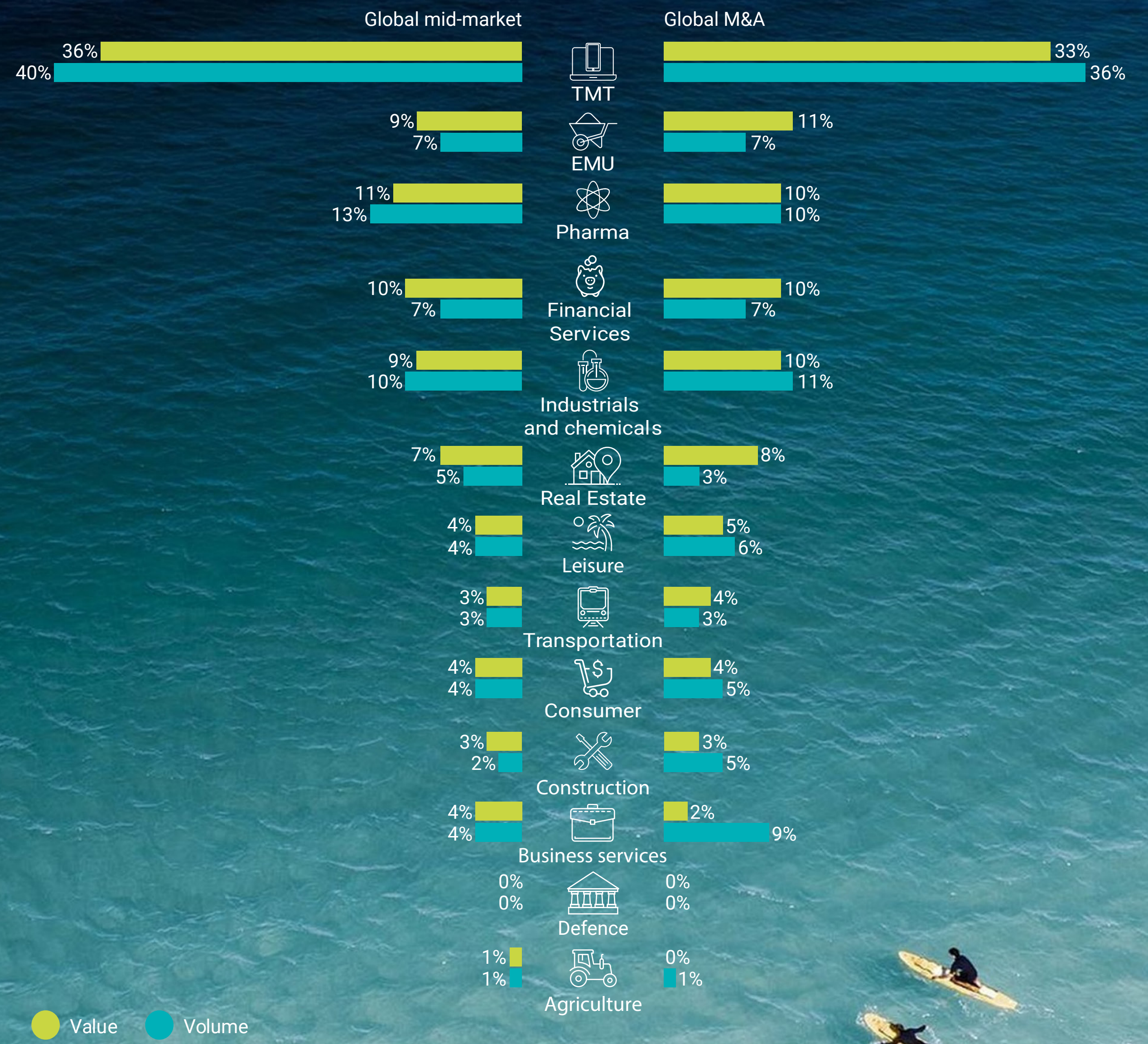
Financial services: Change and consolidation

The financial services sector has proved more resilient to the negative impacts of the COVID-19 pandemic than many other industries, though the low interest rate environment poses challenges for profitability for businesses such as banks. Many businesses in the sector now appear to be reassessing their strategy for the coming years, particularly as digitisation in the sector continues to accelerate. The fintech sub-sector, in particular, is growing very rapidly.

This realignment is driving a wave of consolidation, divestments, and acquisitions, with industry incumbents keen to secure new technology and explore growth markets. The sector accounted for only 7% of global M&A by volume last year but 10% by value.

While many deal discussions are still couched in terms of the current COVID challenges, other key macro issues, from climate change to the rise of cryptocurrencies and the pace of digital transformation, have their own centres of gravity. Dealmakers are now looking at how these intersect, when assessing targets that are going to deliver value and spur growth in the latter half of this decade.

Global M&A and mid-market M&A: Sector breakdown



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