

Tuesday, December 21, 2021

Written by the Insights team

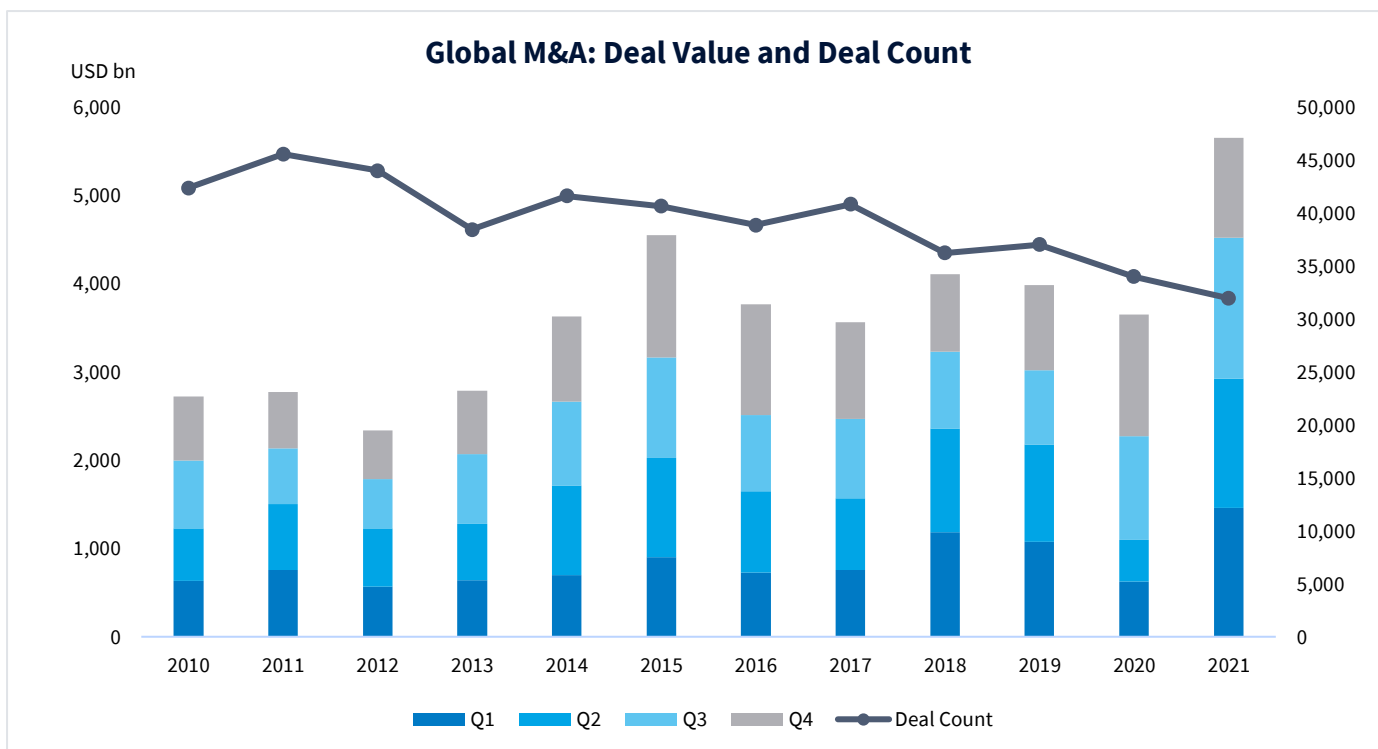
## Highlights M&A

### World Record: Global M&A hits all-time high despite fourth quarter slowdown

Global mergers and acquisitions hit record levels in 2021 thanks to ultra-low interest rates, easy access to capital and recovering economies worldwide.

Total M&A worldwide reached USD 5.65tn, smashing the previous record of USD 4.55tn set in 2007, just before the global financial crisis.

“There’s a lot of money in the market,” says John Potter, PwC US Deals Sector Leader. “A persistently healthy stock market, generally high valuations, liquid borrowing markets and dry powder present a receptive environment.”



North America dominated, accounting for USD 2.8tn or 49.3% of the world’s deals, up from USD 1.6tn or 44% in 2020.

The world’s biggest transaction saw US phone company AT&T divest **WarnerMedia** to **Discovery** in a USD 96bn deal in May, unwinding its unsuccessful foray into content. The second largest deal saw Dell spin-off its 81% stake in **VMWare** in a USD 62bn deal in April.

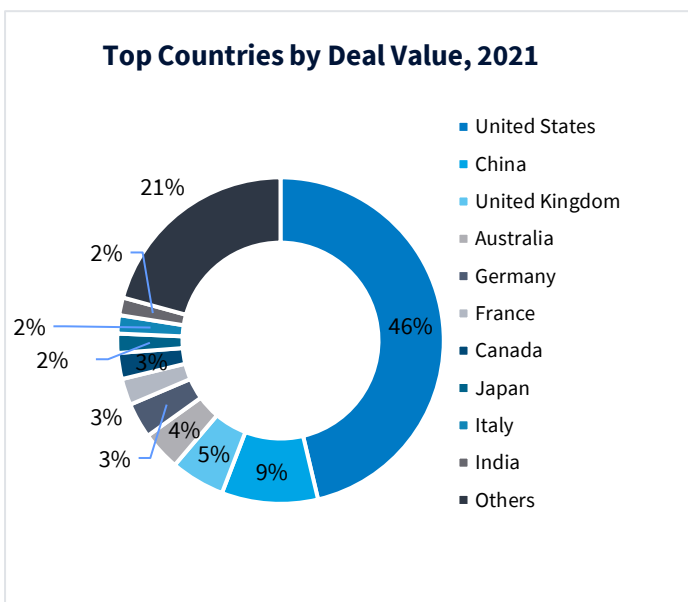
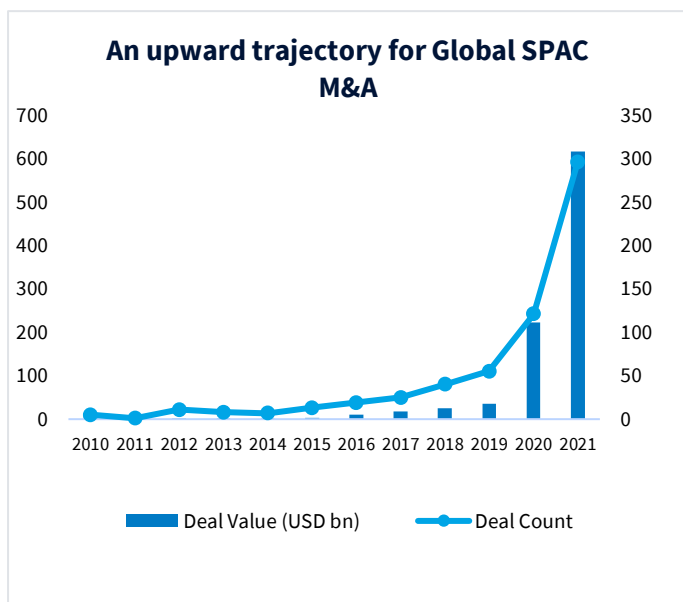
Europe also enjoyed a hot streak. M&A increased to a record USD 1.26tn from USD 900bn in 2020, led by the continent’s largest leveraged buyout ever involving **Telecom Italia’s** USD 40.1bn acquisition by **KKR** in November. However, Europe’s share of global M&A dipped to 22% in 2021 from 24.6% in 2020, mainly because North America had such a blockbuster year.

Source: Dealogic; data correct as of 20 December

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While Asia Pacific hit a record USD 1.3tn of deals, up by nearly a third on 2020's total, China's M&A stayed flat at around USD 539.5bn, dampened by Beijing's regulatory crackdown on technology companies. China's share of global M&A dropped to 9.5% from 15% last year.

Special purpose acquisition companies (SPACs) drove much of global M&A. SPACs accounted for USD 616.7bn-worth of M&A transactions worldwide, led by deals for Singapore ride-hailing giant **Grab** (USD 37.7bn), US medical software group **MSP Recovery** (USD 32.5bn), and US electric-vehicle maker **Lucid Motors** (USD 28bn). Nonetheless, SPAC deals slowed down later in the year following increased regulatory scrutiny in the spring.

Private equity firms were more active than at any time since 2007. Besides, Telecom Italia's leveraged buyout, other mega LBOs included US medical equipment company **Medline** (USD 30bn) and US medical software firm **Athenahealth** (USD 17bn).

## Can the run continue?

The final quarter of the year saw a major slowdown in M&A, dropping to USD 1.13tn from USD 1.6tn in 3Q21. Worries about high inflation were the main cause of the dampening M&A environment.

But the slowdown also may be more a capacity question. "Everyone involved in M&A is flat out," says Potter, who expects more mega LBOs, SPAC deals and large corporate transactions in 2022.

Other dealmakers agree.

"Based on the volume of new pitches [for] transactions that would come to market in 1Q and 2Q of 2022—there are no signs of a slowing deal market," says Phil Isom, Global Head of M&A at KPMG.

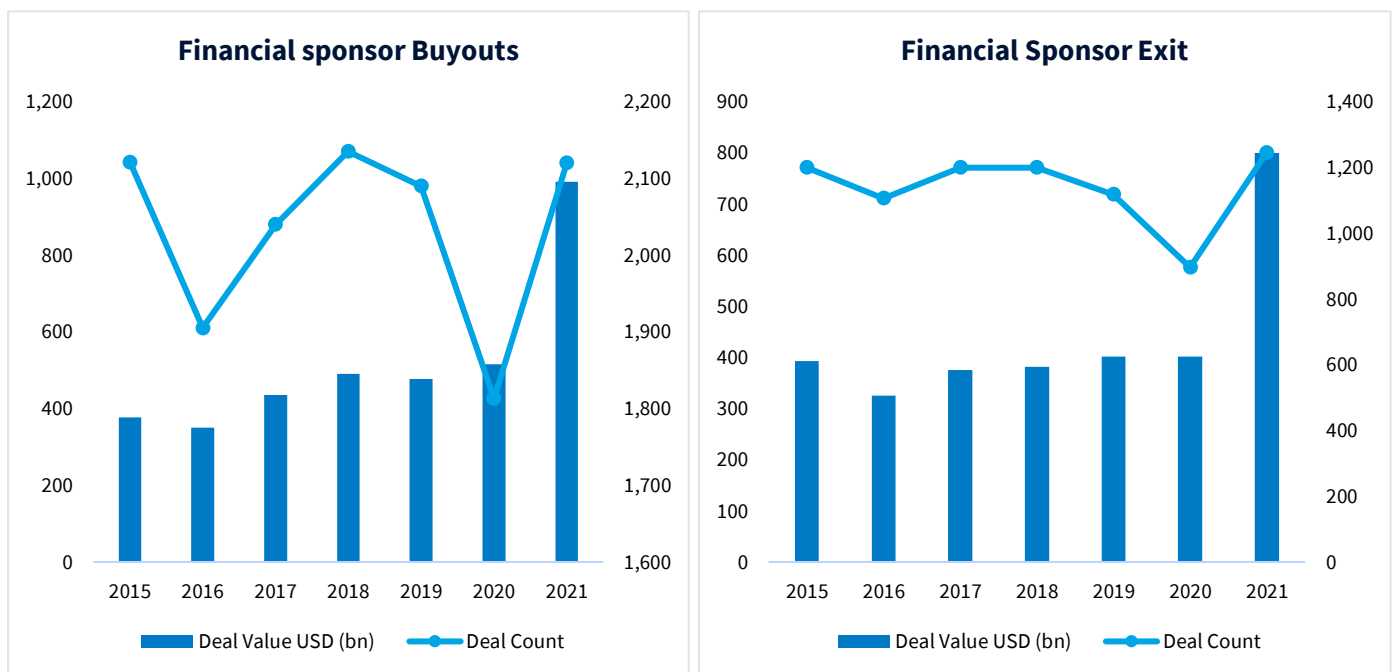
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## Private equity: A meteoric rise

Global PE activity accounted for 27% of worldwide M&A activity by value and 9% by deal count in 2021, setting a new record for the total share of sponsor-led dealmaking. Buoyed by low interest rates and high volumes of dry powder, the PE space saw USD 1.54tn change hands across 2,869 deals.

A total of 2,120 buyouts worth USD 990.81bn were recorded in 2021. Technology continues to fuel investor appetite with 470 deals worth USD 225.7bn. The telecom and real estate sectors have also attracted high levels of interest with USD 69.6bn and USD 37bn invested respectively in those two sectors. The largest buyout deal of 2021 so far is the USD 40.1bn acquisition of Telecom Italia by KKR in November. Buyout activity is expected to grow further in 2022 with PE firms in the early stages of tapping into new markets such as the insurance and retail investor spaces. Indeed, a SEC advisory group recently recommended increasing retail investor's access to private capital vehicles, as per a [WSJ report](#).



Exit valuations have reached new highs and sponsor exits have almost doubled compared to last year with 1,245 exits worth USD 800.1bn recorded in 2021.

Some sizeable exits in the space include the USD 21bn sale of US-based contract research services provider PPD, the USD 18n sale of US-based biotechnology company **Ginkgo Bioworks** and the USD 15.4bn sale of US-based cyber security services provider **McAfee Corp.** PPD was acquired by US-based manufacturer of analytical instruments **Thermo Fisher Scientific** from Hellman & Friedman. Ginkgo Bioworks was acquired by a SPAC, **Soaring Eagle Acquisition**, from General Atlantic. McAfee was acquired by a group of investors including Permira Advisers and Advent International from TPG Capital, Intel and Thoma Bravo.

With US-based Gauge Capital exploring the sale of US-based vision care management platform **Comprehensive EyeCare Partners**, Novalpina Capital-backed Israeli cyber security services provider **NSO Group Technologies** exploring strategic alternatives, CPE Capital-backed Australian industrial workwear and industrial textile group **Jaybro** on the block and New York-based Waypoint Capital Partners expected to collect final offers for Italy-based **Affidea** in January, the space will continue to heat up in 2022.

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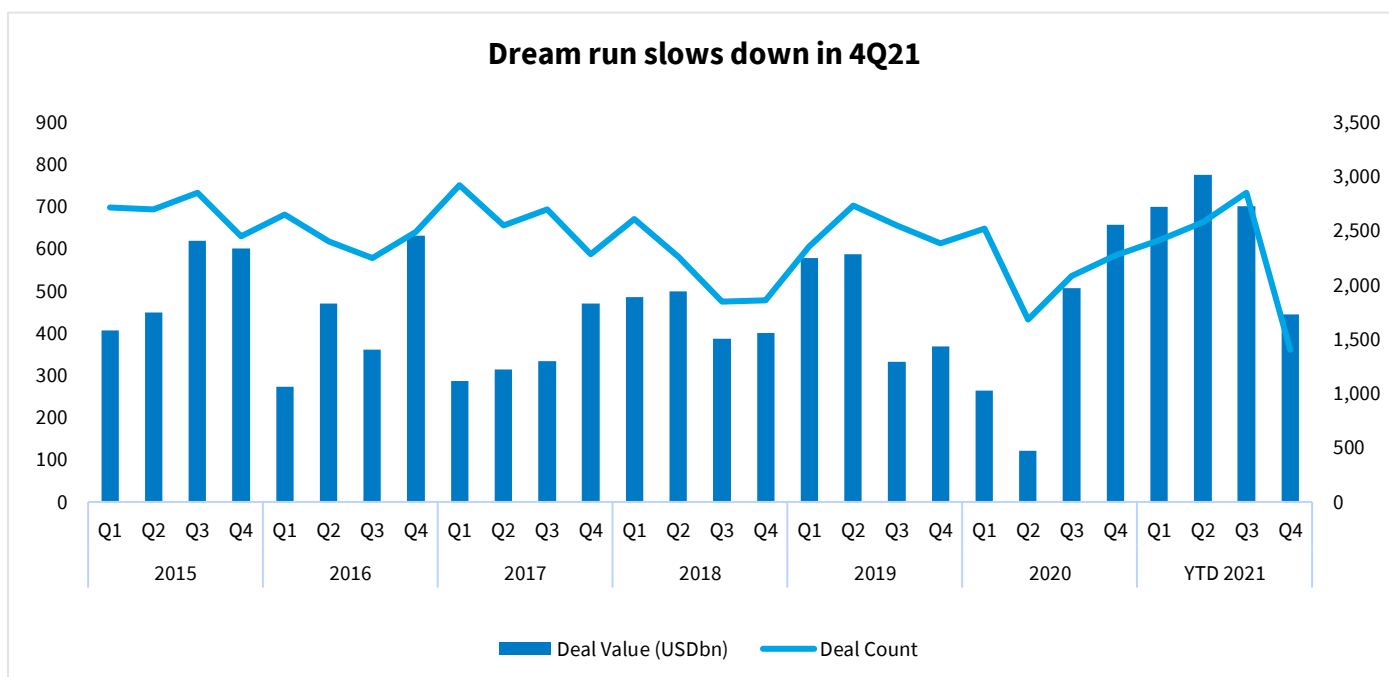
## North America: US and Canada record blockbuster year

The US recorded its best year ever, surpassing USD 2.6tn-worth of deals on the back of soaring stock markets and easy access to capital. Its previous record of USD 2.1tn came in 2015.

The US accounted for almost half of global M&A by deal value. Six of the top 10 deals globally involved US-based companies, led by AT&T's USD 96bn WarnerMedia spin off and merger with Discovery.

After a record first nine months of the year, US deal activity in 4Q21 (to 20 December) slowed down to USD 444bn, a 32% slump from 4Q20, amid uncertainty over inflation.

Canada's M&A totaled USD 145.5bn in 2021, more than double last year's haul, but short of its 2007 record of USD 212bn. The Great White North placed seventh in the world by deal value, buoyed by the USD 21.3bn acquisition of **Shaw Communications** by **Rogers** to create Canada's second biggest cellular company.



## Tech and healthcare lead the way

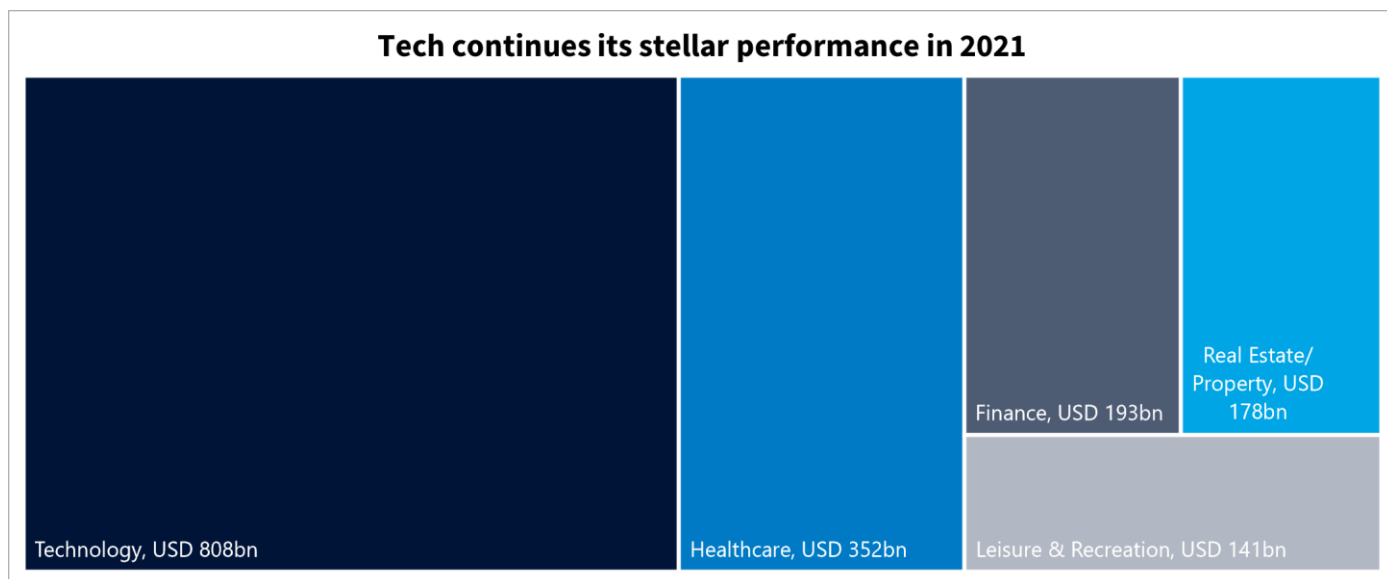
The US technology sector dominated, accounting for 3,680 deals worth USD 808bn or 31% of the country's total deal value. Tech dealmaking increased 77% by value compared to 2020, led by Dell Technologies' USD 62bn spin-off of its 81% stake in VMware, a provider of virtualization and cloud infrastructure services, to existing shareholders.

Healthcare IT remained one of the US tech sector's most active. The USD 32.5bn acquisition of healthcare payments platform **MSP Recovery** by blank check company **Lionheart Acquisition Corp II** and the USD 17bn buyout of **Athenahealth** by private equity firms **Bain Capital** and **Hellman & Friedman** were two landmark transactions in healthcare IT. Cybersecurity was another busy sub-sector, led by **Proofpoint's** USD 12.4bn buyout by private equity group **Thoma Bravo** in April.

The US healthcare sector announced deals worth USD 352bn, a 25% increase compared to last year. The USD 30bn leveraged buyout of medical product distributor **Medline** and **Thermo Fisher's** USD 21bn acquisition of contract research organization **PPD** led healthcare M&A.

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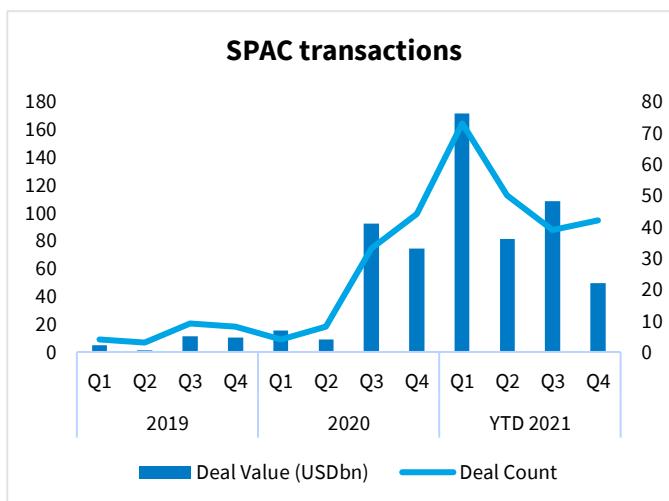
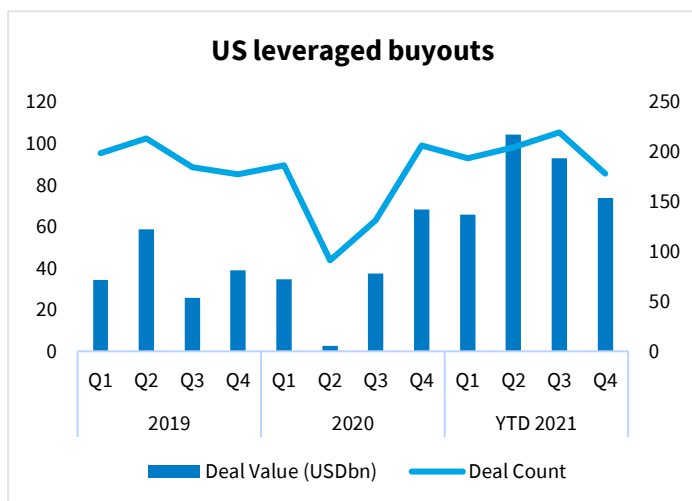
## The LBO and SPAC bonanza

Leveraged buyouts totaling USD 336bn – the best year since 2007 – represented 13% of all US deals by value.

Medline’s LBO, the US’s biggest in 14 years, was followed by three mega deals in November alone: Athenahealth’s USD 17bn buyout, the USD 15.3bn acquisition of cybersecurity firm **McAfee** by **Advent** and **Permira**, and the USD 15.3bn buyout of data center REIT **CyrusOne** by **KKR** and **Global Infrastructure**.

Blank check companies – or special purpose acquisition companies (SPACs) – accounted for 16% of total M&A in the US. SPAC acquisitions reached a peak in 1Q21 but then slowed down due to regulatory scrutiny.

The year’s biggest SPAC deal was for MSP Recovery, followed by the USD 28.5bn acquisition of electric car manufacturer **Lucid Motor** by **Churchill Capital Corp IV** and the USD 17.9bn acquisition of organism design company **Ginkgo Bioworks** by **Soaring Eagle Acquisition Corp**.



Source: Dealogic; data correct as of 20 December

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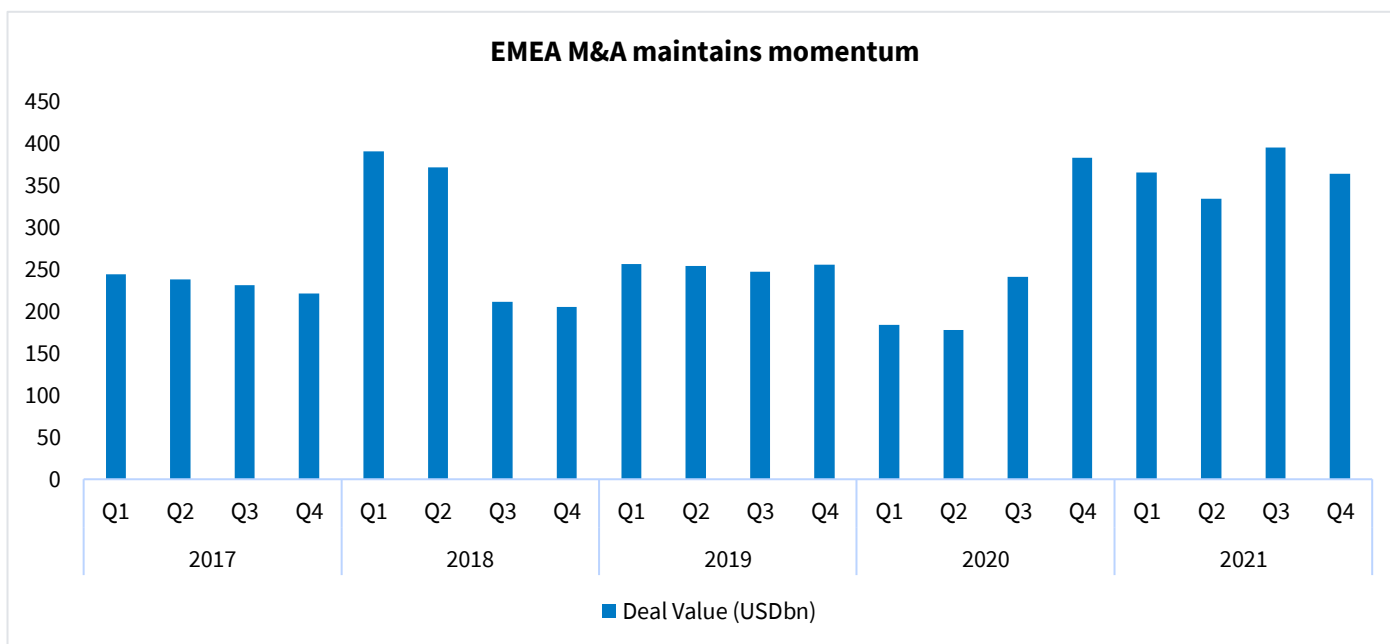
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## EMEA: Mega deals push M&A to its highest point since 2007

M&A activity in EMEA hit record heights in 2021 as megadeals returned to the region, coupled with a surge in private equity and technology dealmaking. In total, the region saw USD 1.5tn recorded this year, representing the highest annual total since 2007 (USD 2tn) and the third-highest annual figure on Dealogic record.

Following the immediate decline caused by the COVID-19 outbreak in early 2020, EMEA has now seen five successive quarters of at least USD 300bn in M&A – a feat not seen since the global financial crisis over a decade ago. The pent-up demand for deals has sustained throughout 2021, driven by megadeals.



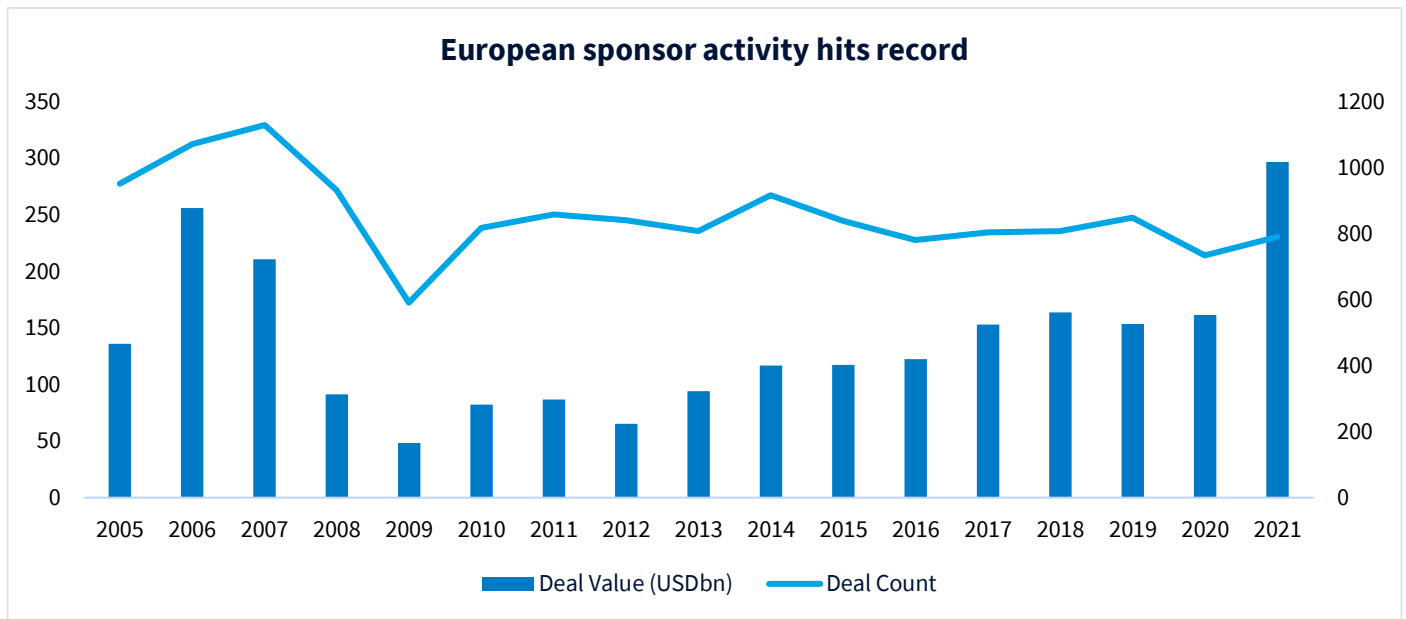
## Record-breaking sponsor activity drives dealmaking

Deals worth at least USD 2bn reached a combined USD 849.2bn, accounting for 58.2% of the region's total M&A value in 2021. This included 18 deals announced worth at least USD 10bn. The largest of these saw KKR offer to acquire Telecom Italia in a deal worth USD 40.1bn. The deal would represent the largest leveraged buyout by a private equity firm in EMEA on record, surpassing the EUR 17.2bn takeover of ThyssenKrupp Elevator in early 2020.

This, combined with a number of other high-profile private equity deals, pushed sponsor-led activity to its highest point on record. Sponsor-led dealmaking reached a remarkable USD 296.6bn in 2021, representing an 83.5% increase on the 2020 value (USD 161.4bn) and the first time it has breached the USD 200bn mark since 2006. Sponsor activity has been rising steadily in recent years, driven by high levels of private equity fundraising and favourable financing.

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## Tech dominates EMEA M&A

Mirroring global trends, the tech sector drove dealmaking both amongst corporates and sponsors. The sector has seen exponential growth in EMEA in recent years, reaching USD 308.6bn across 3,066 deals this year – its highest point on record. This represents a 69.9% uptick on last year's figure of EUR 181.6bn, the previous record value.

M&A in the sector has now reached the USD 100bn mark in five of the last six years. This was driven by 11 deals recorded worth at least USD 5bn this year, including the USD 8.1bn takeover of food delivery platform **Wolt Enterprises** by US rival **DoorDash**, announced in early November.

North American dealmaking into the region accounts for the vast majority of inbound activity. US-based firms have conducted 940 deals worth a combined USD 328.6bn, accounting for a 74% share of inbound M&A. Foreign investment reflected overall M&A, surging to its third-highest point on record. A total of USD 443.8bn has been recorded in 2021, a 74% rise by value versus the 2020 value of USD 255bn.

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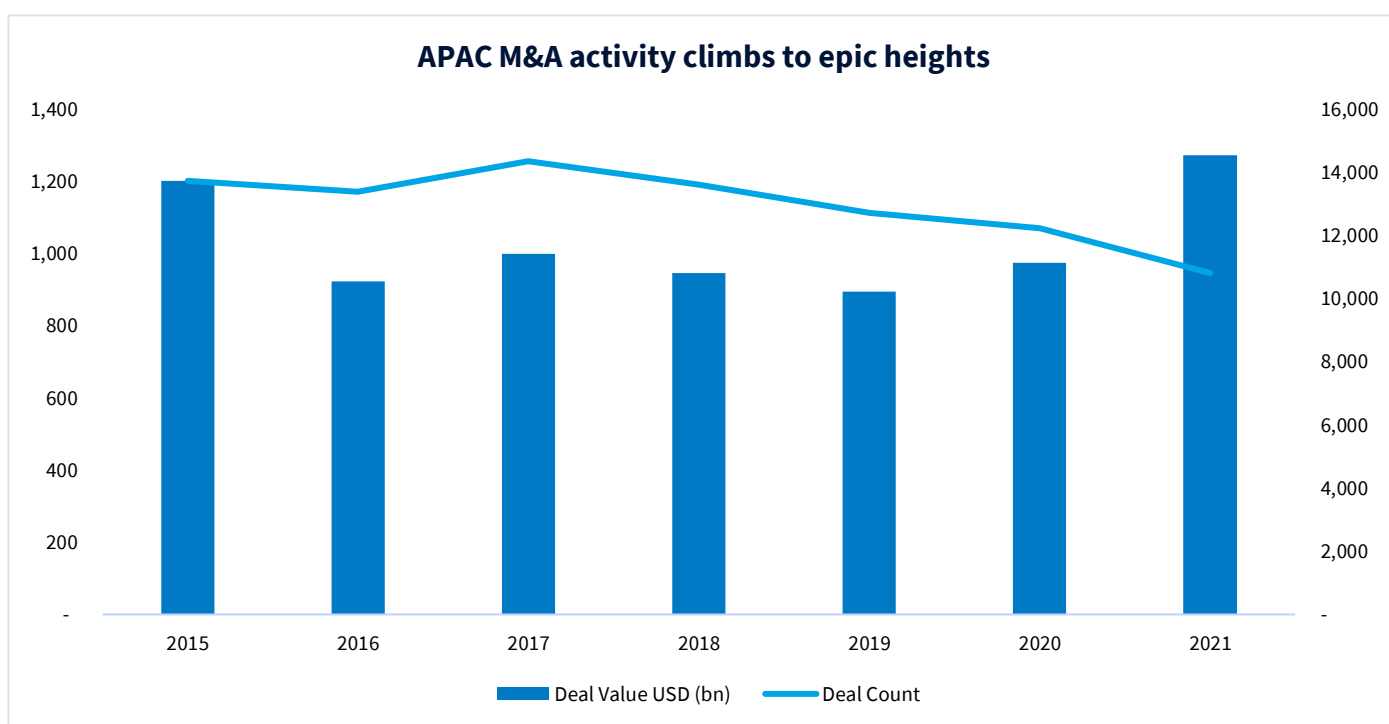
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## Asia Pacific: China stays flat but Australia helps region to record high

Asia Pacific's M&A activity surged to USD 1.3trn in the year to date – up 30.6% from full-year 2020 and the highest figure ever since Dealogic records began in 1995.

While China's dealmaking stayed mostly flat at USD 539.5bn following Beijing's regulatory crackdown and Japan's shrunk by 22% to USD 107bn, Australia recorded a fourfold increase to USD 220bn.

APAC dealmaking softened markedly in 4Q21 (USD 261.6bn across 1800 deals) compared to a record-smashing 3Q21 (USD 423.7bn across 3000 deals).



## Beijing in the driver's seat

Illustrating the general slowdown in M&A in the year's final quarter, the USD 7.4bn capital injection received by **China Huarong Asset Management** from a group of companies led by state-run Citic Group was the only transaction in 4Q21 that made it into the year's top 20 Asian deals.

That transaction also shows that China's largest deals are mostly confined to state-owned enterprises (SOEs) as private business and homegrown technology giants remain under tight regulatory scrutiny and anti-monopoly supervision.

State-owned China National Building Materials (CNBM) sold assets worth USD 28bn – including **South Cement** for USD 13.1bn – to its subsidiary **Xinjiang Tianshan Cement** as part of the group's restructuring drive. Other notable deals in China involved power generation company **SDIC Power** and **Peking University Founder Group**, a conglomerate undergoing bankruptcy.

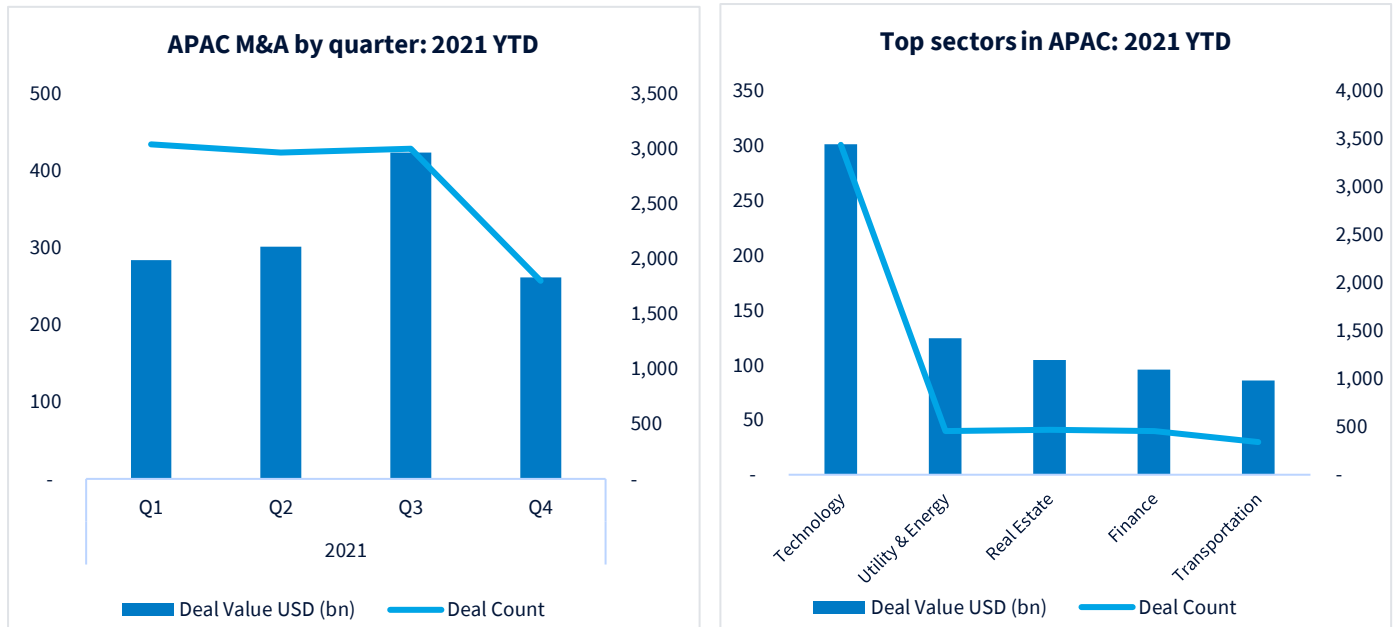


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## Tech magnetism

Meanwhile, APAC's technology sector continued to lead by both deal value and volume in 4Q21, with USD 54.8bn across 533 deals announced – about 1.7x the value of the finance sector, which came in second with USD 32.1bn across 94 deals.



Even so, APAC tech M&A also recorded lower activity in 4Q21 compared to 3Q21 (USD 89.6bn across 1008 deals) in line with the general slowdown.

The proposed USD 34.7bn merger between **Grab** – Southeast Asia's leading food delivery and ride-hailing firm – and NASDAQ-listed blank check company **Altimeter Growth Corp**, announced in April, remains APAC's largest deal in 2021.

Another technology transaction – Australia-based **Afterpay**'s USD 26.9bn acquisition by California-based digital payments specialist **Square**, announced in August – was APAC's second largest deal this year.

M&A activity in the region is expected to remain strong in 2022 as markets continue to be awash with liquidity. However, tightening monetary measures, COVID variants and geopolitical tensions between the US and China might cloud the prospects of a dealmaking bonanza.