



# M&A Update

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November 17, 2020

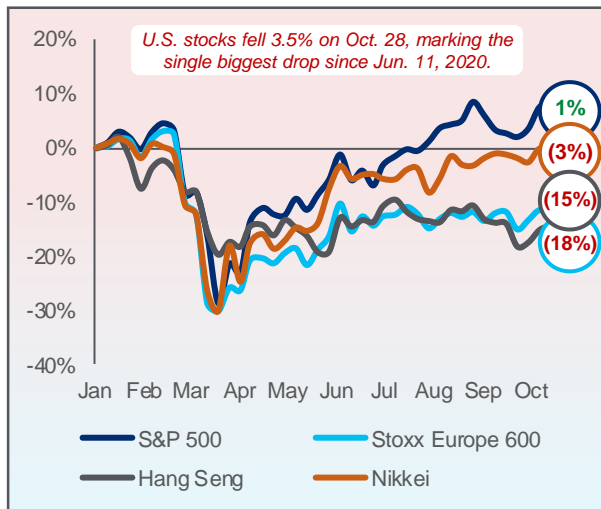
# Recap of Major COVID Events in the U.S.

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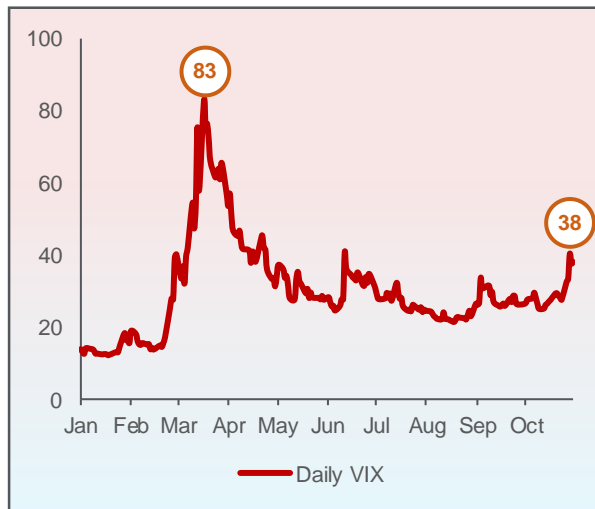
- The World Health Organization declared COVID-19 as a global pandemic on March 11, 2020. The United States declared a national state of emergency on March 13, 2020.
- During the week of Feb 28, the S&P 500 suffered its biggest weekly drop since the 2008 financial crisis on fears of a global recession
- Since March, the United States has passed 3 Fiscal stimulus programs:
  - **March 6:** The Coronavirus Preparedness and Response Supplemental Appropriations Act was passed, providing emergency supplemental appropriations of \$8.3 billion in fiscal year 2020 to combat the spread of COVID
  - **March 18:** The Families First Coronavirus Response Act (FFCRA) was passed, providing expanded nutrition assistance, paid sick leave, enhanced unemployment insurance coverage, free COVID testing, and increased federal Medicaid funding
  - **March 27:** The CARES Act passed, providing \$2T+ in economic stimulus: \$300B in one-time cash payments to individual Americans; \$260B in increased unemployment benefits; the creation of the Paycheck Protection Program that provides forgivable loans to small businesses with an initial \$350B in funding (later increased to \$669B); \$500B in aid for large corporations; and \$340B to state and local governments
- By March 20, the Dow Jones Industrial Average had fallen 33% since the start of the year to 19,174 points
- The U.S. Department of Labor registered 6.6 million jobless claims for the week ending March 28, the highest number of initial claims ever
- October ended with initial claims for state unemployment benefits falling to a seasonally adjusted total of 751K. Claims remain above the 665K peak recorded during the 2007-09 Great Recession, though they have dropped from a record 6.9M in March.
- On November 8, the U.S. became the first nation to cross 10M COVID cases. There were ~106K new coronavirus cases reported, marking the fifth consecutive day where cases topped 100K.

# Macroeconomic Indicators Have Improved

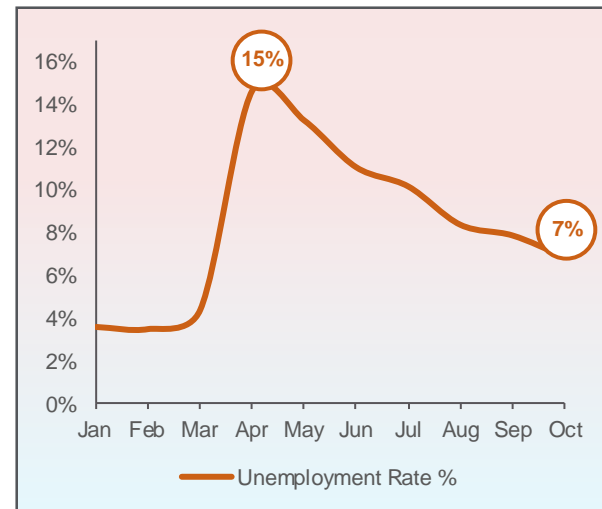
## Global Equity Markets (1)



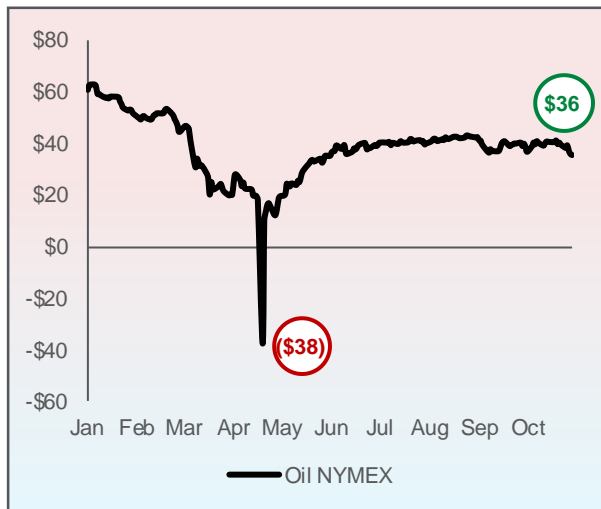
## Volatility (CBOE VIX)



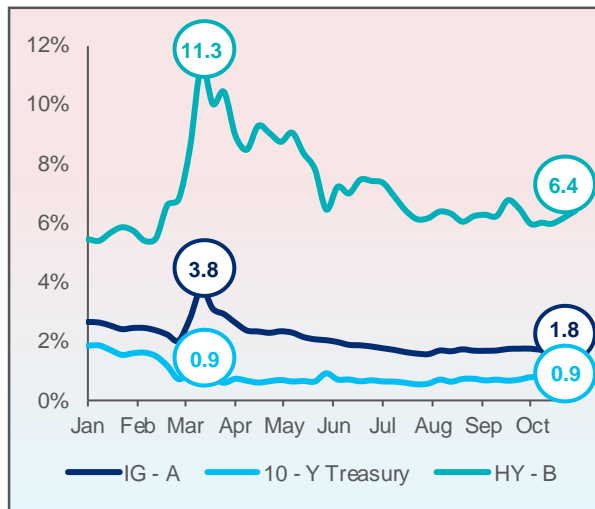
## U.S. Unemployment Rate



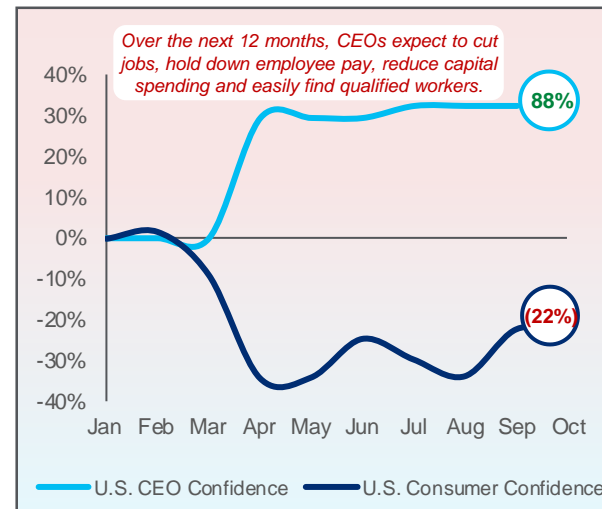
## Oil Price Change (2)



## Interest Rates & Yields



## Confidence (3)



Source: FactSet, Web. Data as of October 31, 2020.

Notes: (1) Percentage changes for latest closing price vs. January 3, 2020. (2) Crude oil daily NYMEX data. (3) CEO Confidence survey is a quarterly survey of 100 U.S. CEOs in a variety of industries which details their attitudes and expectations. The U.S. consumer confidence is defined as the degree of optimism held by consumers on the U.S. economy. Both data points have been adjusted to equitant initial values as of January 31, 2020.



# M&A Volumes Returning to Historical Averages

**Global M&A Volume <sup>(1)</sup> as a % of Global Market Capitalization**



**Global M&A Volume <sup>(1)</sup> as a % of Global Gross Domestic Product <sup>(2)</sup>**



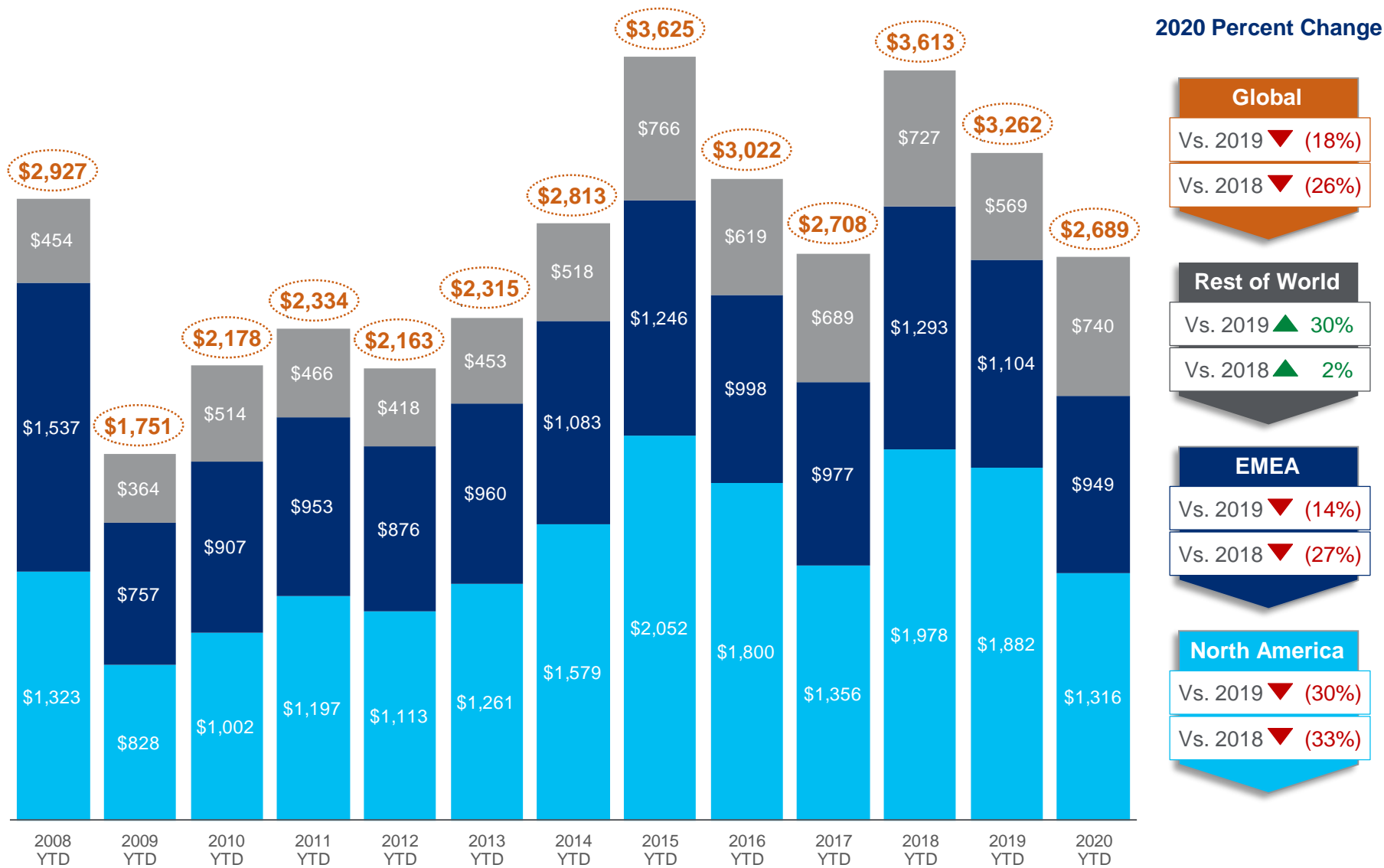
Source: Dealogic, FactSet, Economic Intelligence Unit. Data as of October 31, 2020.

Notes: (1) M&A volume is based on rolling 3-month sum. (2) GDP data and 2020 projections sourced from Economic Intelligence Unit.

# Despite Surge, Global M&A Volumes Are Still Down 18% YoY

## Global Announced M&A Volume by Region <sup>(1)</sup>

Volume US\$B



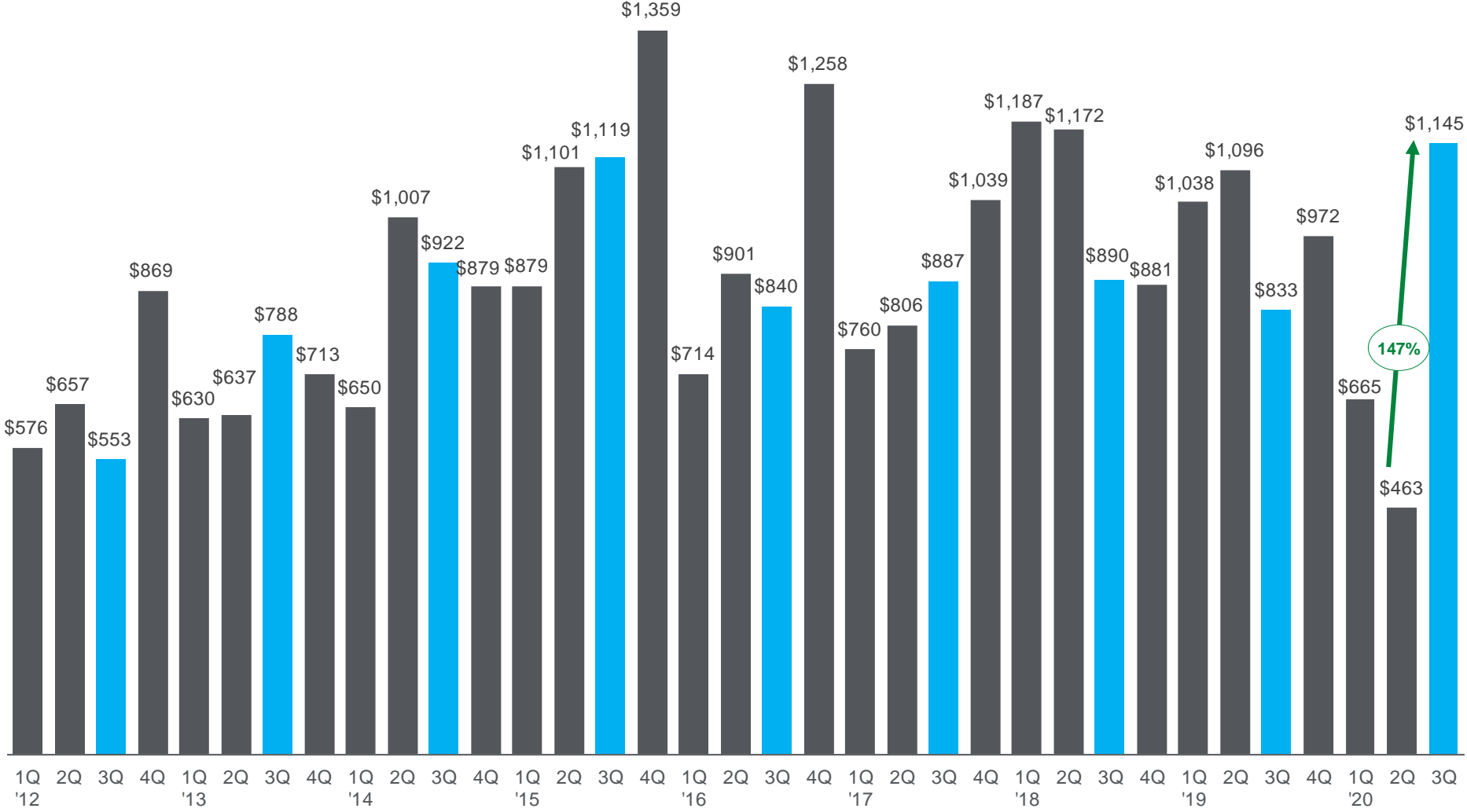
Source: Dealogic. Data as of Data as of October 31, 2020.

Notes: (1) Region activity is based on geography of target, acquirer or divestor, which leads to double counting. (e.g. an EMEA company's acquisition of a NAM company is reflected in both EMEA and NAM data. The global totals represent a single count view of overall activity.

# 2020 Witnessed the Best 3Q in the M&A Market's History

## Global Announced M&A Volume by Quarter

Volume US\$B

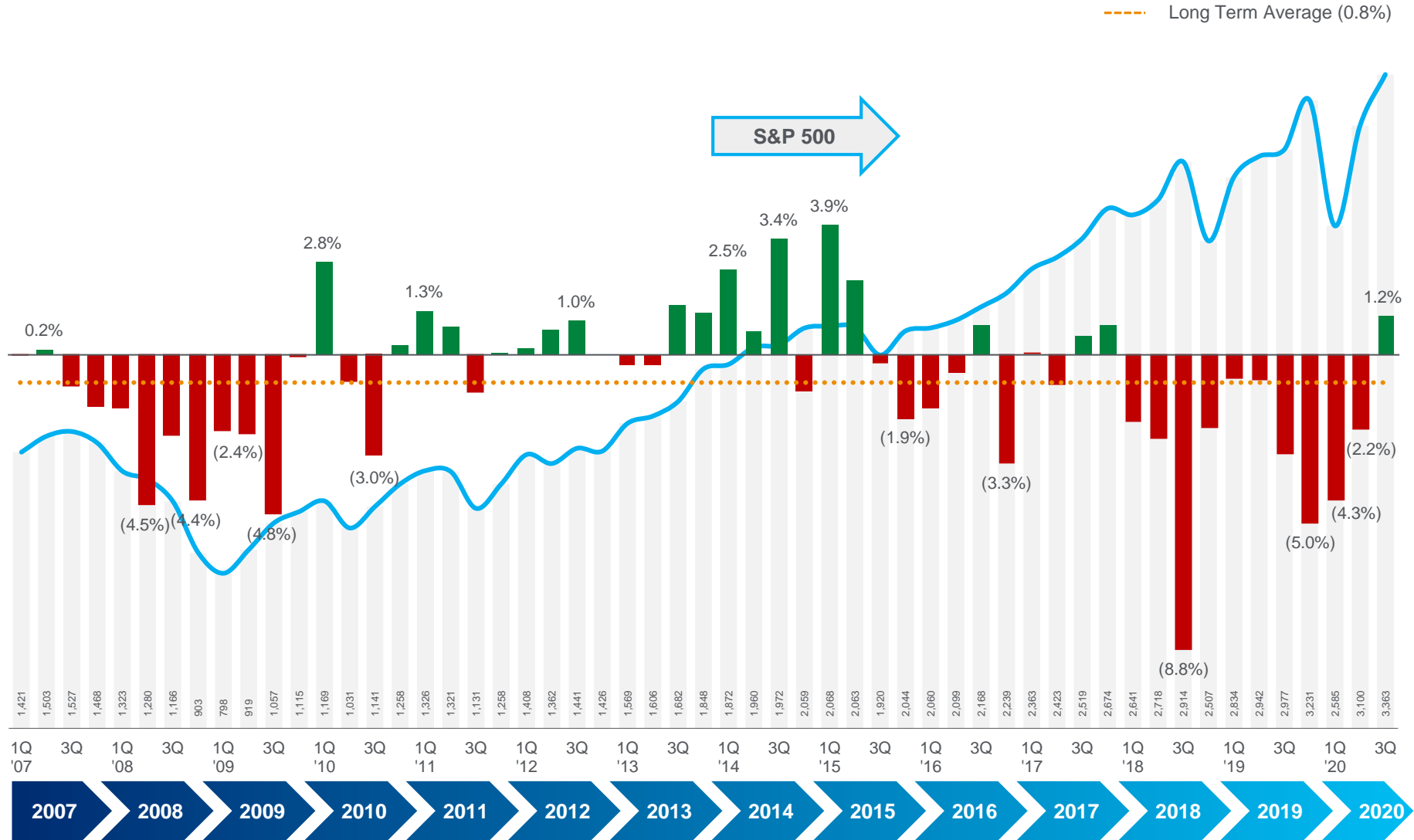


Source: Dealogic. Data as of October 31, 2020.

# Investor Reaction to M&A is Reminiscent of 2009-2014 Time Period

## U.S. Acquiror Price Performance (1)

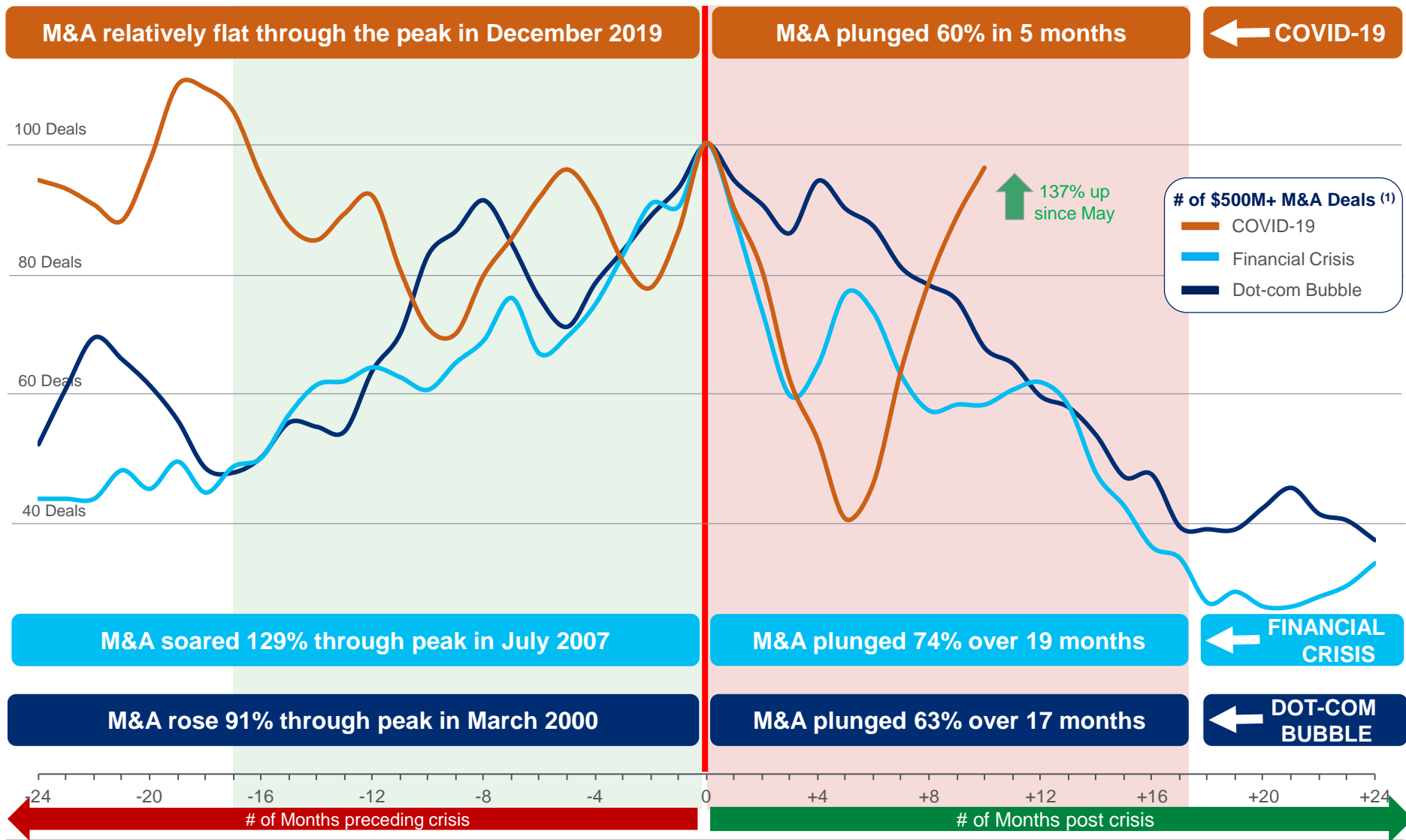
1-Day Median Price Reaction Post Initial Offer in Excess of 1-Day S&P 500 Return



Source: Citi Deal Intelligence, FactSet. Data as of October 31, 2020.  
 Note: (1) Data based on \$500M+ deals with a public target and U.S. public acquiror seeking to acquire at least 50% in deal and to own at least 90% after deal.

# Sharp Post-COVID Recovery Continues to Trend Upward

M&A activity plunged deeper and at a faster pace during the COVID-19 pandemic than the last two crises. However, since May, global M&A activity has continued to rise toward pre-crisis levels.



Source: Dealogic. Data as of October 31, 2020.

Note: (1) Rolling 3-month average number of \$500M+ M&A deals re-based to 100 at peak. Peak for the COVID-19 period is December 2019.



# Citi's Observations on the 2020 M&A Market

## M&A Market

## Impact & Observations

1

COVID revealed the vulnerabilities of many corporations: customer interface, distribution, supply-chain sourcing, geographic footprint, and corporate resiliency.

- COVID forced corporations to redefine long-range strategic plans, with a **heightened urgency for change**
- Combined with cheap and plentiful Fed-assisted market liquidity, large-scale M&A is returning faster than anticipated: **the latest quarter was the strongest ever 3Q for announced global volume**, up ~150% vs 2Q

2

Drivers of current M&A market activity

- **Healthcare, Technology, and Financial Institutions account for the largest share of YTD M&A wallet**
- The U.S. equity markets recovered their 2020 losses primarily due to Big-Tech driving the key indexes

3

SPACs and Sponsors will account for increasing share of the M&A market in the next 12 months

- **There is currently ~\$60B of SPAC capital looking for targets, which translates into ~\$250B of future M&A volume.** SPACs are a larger slice of M&A activity, nearly 20% of the \$1B+ deals in NAM since July
- We're also starting to see Sponsors emerge from the sidelines, with **meaningful P2P dialogue underway**, already having translated into a recent uptick in big LBOs

# 2020 YTD Global M&A Market Recap

## Global Volumes

- At \$411B, October recorded the second-strongest monthly announced M&A volume this year, and marks the strongest October volume since 2016.
- Due to the rebound in activity over the last 4-5 months, global M&A volumes are down only 18% year-over-year, versus 45% as of the end of May.

## Regions

- North American M&A activity continued its strong momentum in October, accounting for 53% of overall volume and 51% of the number of \$1B+ deals.
- M&A volumes outside of North America and EMEA represent ~28% of the global M&A market, the highest share on record.

## Industry

- Financial Institutions, Media & Telecom, and Consumer are the only sectors with more M&A volume this year than last year, up 27%, 15% and 2%, respectively.

## Cross-Border

- Cross-border M&A activity accounts for just 24% of global M&A volume this year-to-date, the lowest share since 2004.

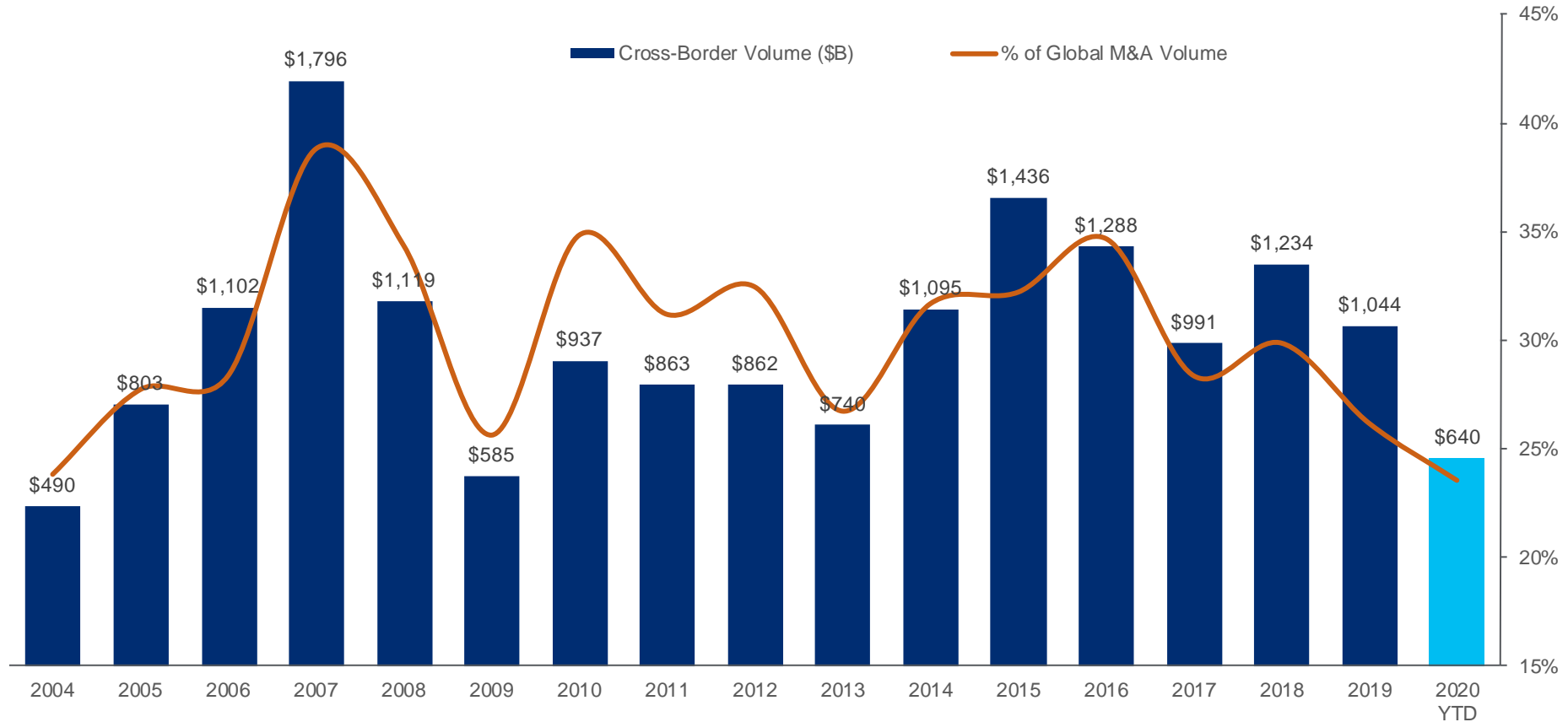
## Consideration

- Stock-for-stock deals remain prominent, with all-stock consideration in line with prior crises.
- We expect this trend to continue as long as markets remain volatile, as it is easier to determine relative value.

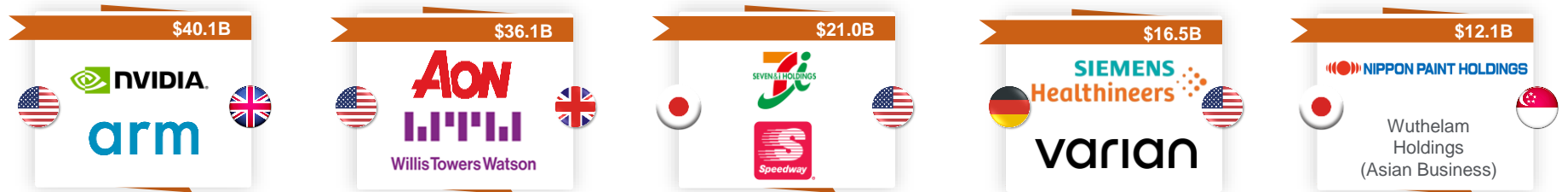
# Cross-Border Share of M&A Activity is the Lowest in 16 Years

## Global Cross-Border M&A Activity

Volume US\$B, % of Global M&A Volume



## Top 5 Cross-Border Deals (Year-to-Date)

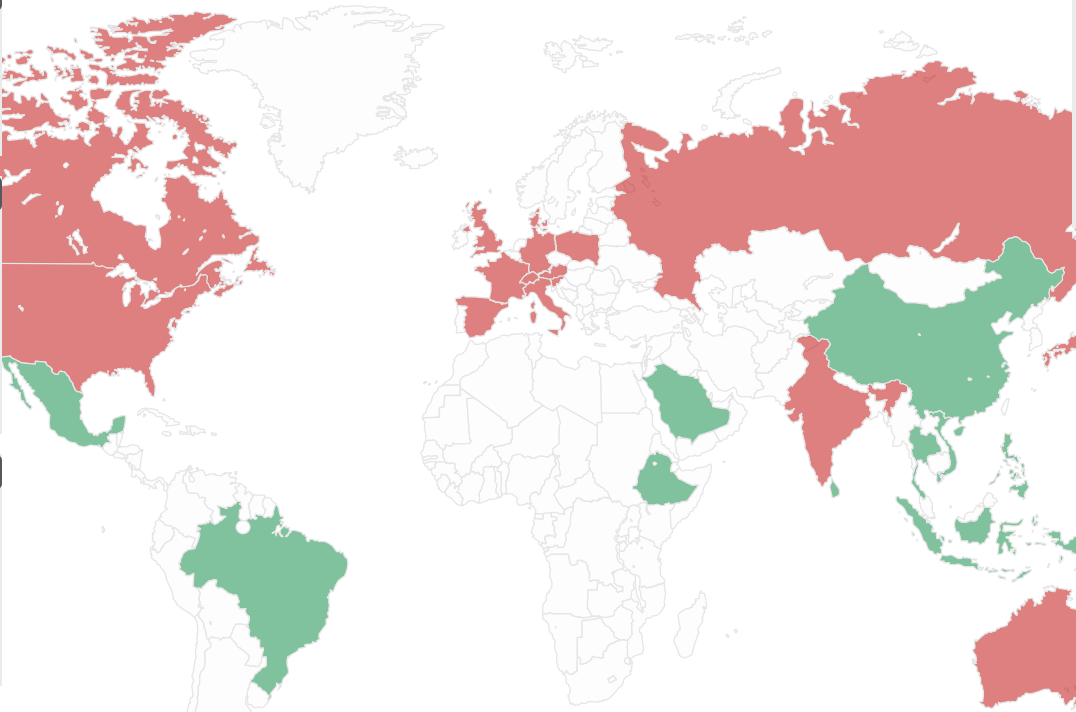


Source: Dealogic. Data as of October 31, 2020.

Note: Cross-border is defined as the target and acquirer are from different countries.

# 2020 Has Witnessed Heightened Government Intervention Throughout the World

## Government Intervention in Select Countries



### Canada

Increased scrutiny on any attempt by foreign entities, especially with links to foreign Govt., investing in Canadian businesses that deal with public health or critical goods and services.

### United States of America

CFIUS is taking more time to accept new cases and start its initial 45-day review and some existing cases may get pushed to second-stage investigation. Bill passed that requires companies listed in US to prove that they are not owned or controlled by a foreign Govt.

### United Kingdom

The UK Govt. has given itself special powers to protect sensitive sectors. The new National Security and Investment Bill proposes 17 business sectors where it will be mandatory to notify the Secretary of State, regardless of transaction size.

### European Union

European Commission issued new guidelines for screening FDI in companies and critical assets located in the European Union in fields deemed essential for security and public order.

### Germany

Restrictive new screening rules apply to non-EU takeover bids and enable the Govt. to block acquisitions that present "potential interference," or security threat.

### France

The revised screening regime extends the list of strategic sectors protected and triggers an approval for non-EU/EEA investors proposing to acquire 25% or more of the voting rights of French entities (lowered temporarily till Dec 31, 2020 to 10% for investments made in French listed companies active in strategic sectors).

### Russian Federation

Procedures for Foreign Investment in business entities of strategic importance aims at subjecting even temporary foreign acquisition of voting stakes in strategic companies to FDI screening procedures.

### Japan

Overseas investors are required to submit a prior notification of stock purchases to the Govt. if they plan to acquire a stake of 1% or higher in listed companies in 12 sectors.

### India

Foreign investment policy requires all acquisitions by investors from any bordering countries to obtain prior Govt. approval, including "the transfer of ownership of any existing or future FDI...directly or indirectly."

### Australia

Restrictions on foreign takeovers on strategic assets that could be sold off cheaply due to devaluation. Review time extended from 30 days to 6 months. "Fast-pass" proposal introduced covering approved foreign buyers.

### Most countries have tightened regulation, hampering cross-border M&A

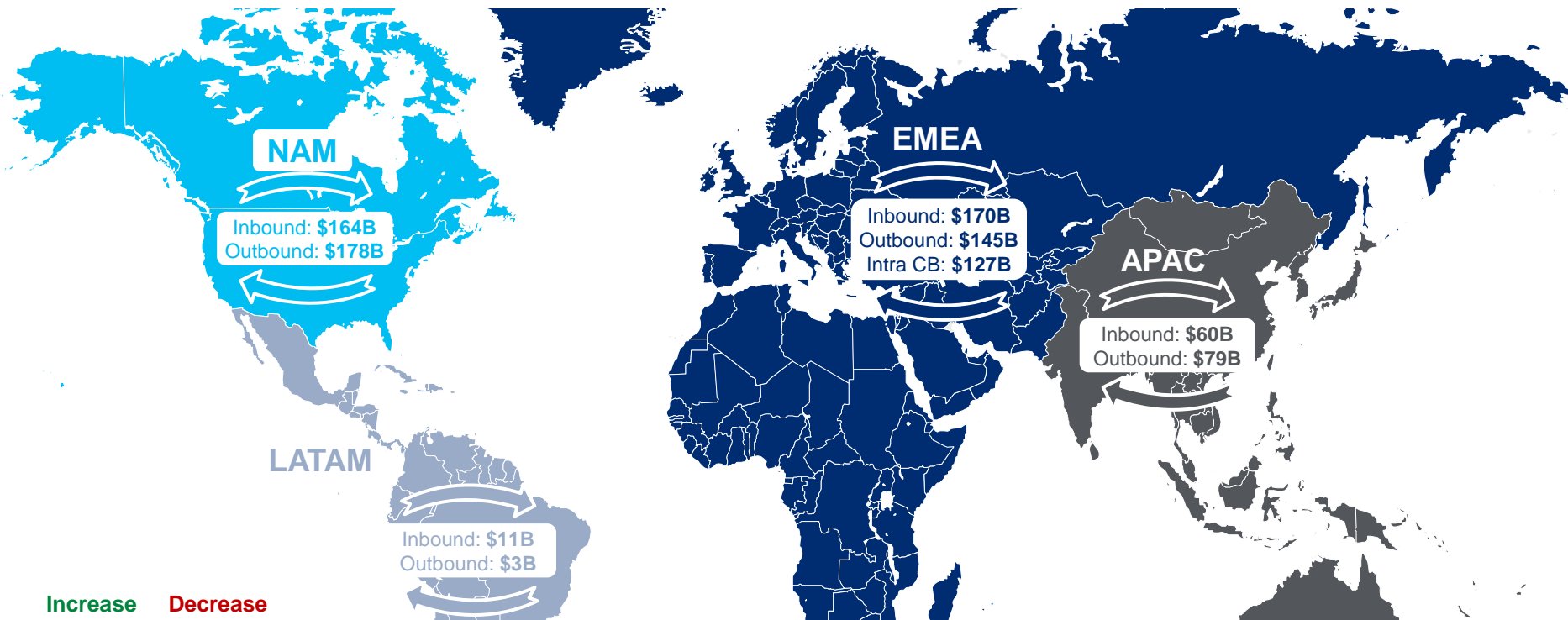


### While others have relaxed regulation around certain sectors



Source: Web.

# Cross-Border Volumes Are Down Across Most Regions



Cross-Border M&A Volumes (US\$B) (Year-over-Year)

Cross-Border Flows (YoY)	2011 YTD	2012 YTD	2013 YTD	2014 YTD	2015 YTD	2016 YTD	2017 YTD	2018 YTD	2019 YTD	2020 YTD	2020 / 2019
NAM Inbound	\$124	\$196	\$73	\$213	\$277	\$323	\$177	\$191	\$189	\$164	(13%)
NAM Outbound	\$178	\$149	\$167	\$169	\$220	\$165	\$181	\$223	\$135	\$178	32
EMEA Inbound	\$190	\$162	\$201	\$179	\$265	\$288	\$223	\$364	\$155	\$170	10
EMEA Outbound	\$134	\$141	\$75	\$218	\$247	\$254	\$123	\$166	\$192	\$145	(24)
APAC Inbound	\$95	\$51	\$47	\$64	\$54	\$60	\$33	\$74	\$73	\$60	(18)
APAC Outbound	\$131	\$165	\$107	\$112	\$153	\$286	\$165	\$270	\$130	\$79	(39)
LATAM Inbound	\$42	\$65	\$33	\$60	\$32	\$46	\$45	\$33	\$49	\$11	(78)
LATAM Outbound	\$8	\$19	\$5	\$18	\$7	\$11	\$9	\$4	\$8	\$3	(68)
Intra-EMEA Cross Border	\$144	\$131	\$131	\$253	\$381	\$109	\$156	\$242	\$212	\$127	(40)
<b>Total Cross-Border<sup>(1)</sup></b>	<b>\$711</b>	<b>\$714</b>	<b>\$611</b>	<b>\$914</b>	<b>\$1,192</b>	<b>\$1,034</b>	<b>\$783</b>	<b>\$1,056</b>	<b>\$856</b>	<b>\$640</b>	<b>(25%)</b>

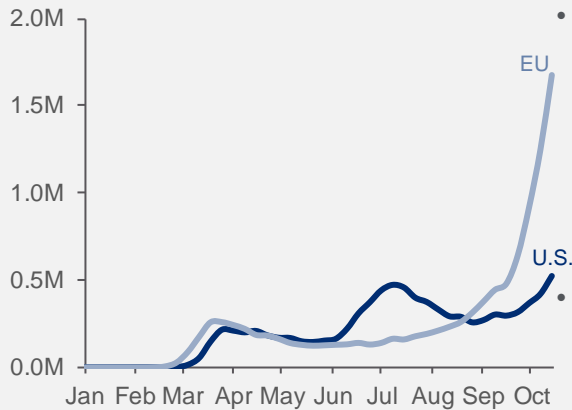
Source: Dealogic. Data as of October 31, 2020.

Notes: Cross-border is defined as the target and acquirer are from different countries. (1) Total cross-border volume represents all the cross-border volumes globally, including intra-regional cross-border M&A in addition to the above listed flows.

# The Road to M&A Normal Remains Bumpy

There is pent-up demand for strategic M&A by virtue of the delays and constantly moving inward strategic plans. However, a second wave of lockdowns and brewing political tensions are a barrier to the return of normalcy.

### Second Wave of COVID-19 <sup>(1)</sup> & Lockdown 2.0



- New spike in cases in the EU has been clearly established, potentially leading to a second wave, combined with seasonal Winter Flu
- Several countries already reintroducing previous lockdown measures



### Political Landscape

Economy may benefit from further fiscal stimulus or be stifled by political gridlock



### Civil Unrest Globally and Within U.S.

Pre-inaugural violence remains a concern that could further amplify the economic impacts of COVID



### Vaccine Success or Failure

Key to resumption of business as usual



### Brexit Still Lies Ahead

“Crashing out” Brexit risk returning to headlines as a serious concern



### Geopolitics

North Korea and China-U.S. relations remain wildcards

Source: FactSet, Web.  
Note: (1) Weekly number of new COVID-19 cases.

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