NATIXIS
CORPORATE AND INVESTMENT BANKING

# Still Busy M&A Agenda in 2022

03 March 2022

- After a year 2021 of record high M&A activity, multiple indicators stay in green in 2022: ample liquidity and high generation of cash flow, decrease of P/E multiples… However, the increase in cost of debt in a context of monetary policies' normalization, geopolitical uncertainty, the strengthening of anti-trust and sovereignty issues will weigh on the trend. We forecast $5300bn of mergers/acquisitions this year after a record high of $5800bn in 2021.
- In China, the trend is on deceleration for the transborder M&A transactions along with a growing difference expected in the coming years between inbound and outbound M&A from China.
- Increase in rates and margins in anticipation of monetary tightening should lead to lower LBO volumes in 2022 after a record in 2021 (€516bn).
- We distinguish 4 drivers of M&A for 2022: i/ digital transformation supports M&A in software and platforms sectors; ii/ energy transition (autos, utilities, oil); iii/ regulation (labs, insurance); iv/ extraction of value for shareholders (Telecom, Food, Chemicals, Banks, Pharmaceuticals).

www.research.natixis.com

# Contents

**1. M&A: what potential in 2022? 3**
2021 was a record year, marked by a boom in crossborder deals and more particularly in the tech sector 3
Outlook for 2022 4

**2. China's M&A activity slows down, but with asymmetric pattern for the cross-border inbound and outbound M&A 9**
A snapshot of China's recent M&A activities 9
Zooming into cross-border M&A activities 10
The inbound M&A into China 11
The outbound M&A from China 12
Conclusion 13

**3. LBO volumes 14**
Volumes and multiples at historic levels… 14
…but relatively stable leverage 14
Volatile H1 2022, but activity will return towards H2 15

**4. Summary of Sector Views 16**

**5. Tech M&A 18**
There are three main reasons for this success: 19
Will it all last in 2022? 19
Where will Tech M&A be most noticeable? 21

**6. TMT – M&A, I love you, I love you not 22**
The bubble 22
Back to reality 22
New momentum possibly... 22
What amounts are at stake? 24
Generous valuations? 24

**7. European utilities/oil & gas majors: no huge M&A wave, but rather some infill acquisitions at local level 26**

**8. Real estate: emblematic transactions largely wrapped up since 2011 28**
Emblematic transactions vs. run-of-the-mill asset rotations 28
A consolidation, but to what end? 29
What awaits in the future? 29

**9. European banking sector and M&A 31**
A not particularly favourable structural environment for banks 31
M&A as a solution to the low profitability? 31
Outlook for 2022 33

**10. M&A in the insurance sector 35**
Consolidation as a response to the challenges facing the sector 35
Consolidation of the insurance sector is expected to continue in 2022 36

**11. M&A in Auto parts, Labs, Pharma, Food, and others 37**
Auto equipment 37
Medical Pathology 37
Global view on various sectors 38

# 1. M&A: what potential in 2022?

THIBAUT CUILLIERE

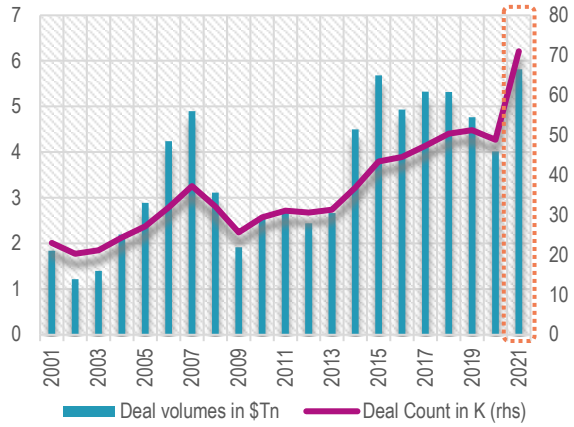
Head of Real Asset Research

## 2021 was a record year, marked by a boom in crossborder deals and more particularly in the tech sector

### Record volumes in 2021

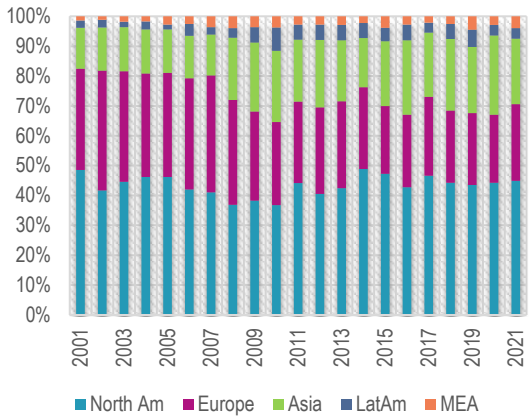
2021 set a new record for mergers and acquisitions (M&A). According to data compiled by Bloomberg (excluding deals proposed and not finalised), **more than 70,000 deals in excess of $100m were completed**, **totalling $5.8trn in volume** (see left-hand chart below), which was more than in 2015. The geographical breakdown of M&A deals based on the country of the targets (see right-hand chart below) reveals a broad stability across major regions over the past two decades, with North America accounting for almost half of global deals (in value), Europe for between 25% and 30%.

**Volume and number of M&A deals (EV > $100m)**




Sources: market data, Natixis

**Geographical breakdown of M&A deals (country of targets)**

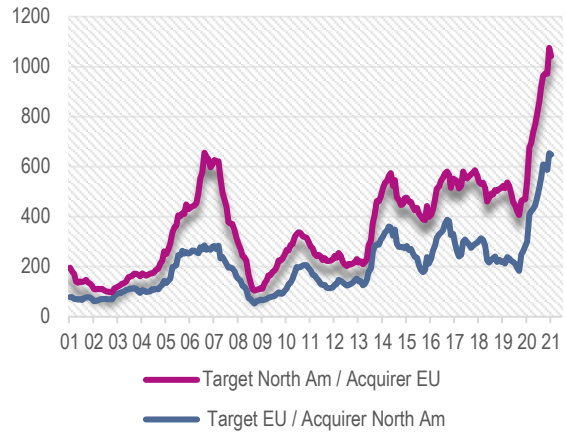



Sources: market data, Natixis

### Crossborder M&A activity holding up

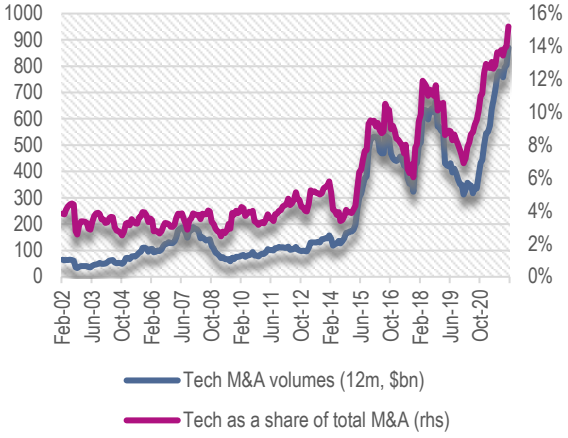
After a slight dip in crossborder M&A activity due to the health crisis and to the repeated lockdowns in 2020, **investments between continents picked up rapidly in 2021**. As highlighted by the left-hand chart below, crossborder deals have surged to new all-time highs, particularly between the European Union and North America, in both directions.

**Volume of deals between EU and North America ($m)**




Sources: market data, Natixis

**Tech M&A volumes ($m) and share of total M&A (%)**



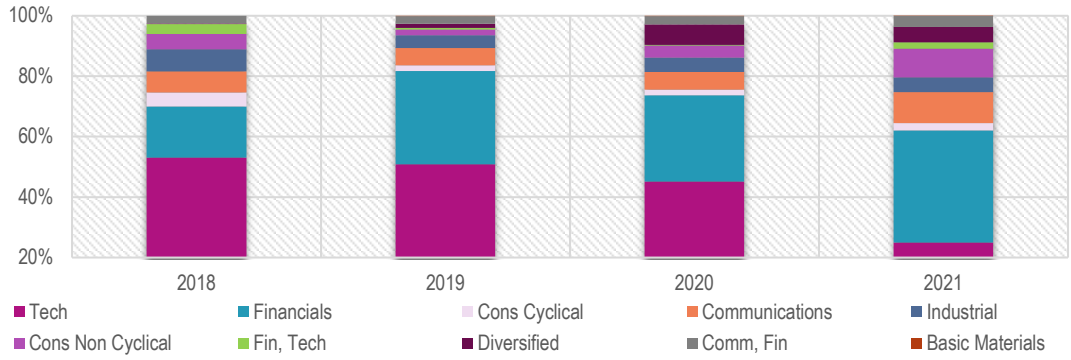

Sources: market data, Natixis

### Digital transformation has driven the recent M&A wave

It was mergers and acquisitions targeting tech companies that soared in particular in 2021: **deals targeting the tech sector totalled $804bn last year**, compared with $500bn in 2020 (which constituted the previous high) and $350bn in 2019 (see right-hand chart above). And the beginning of 2022 was in the same vein, with Microsoft's $69bn offer to buy Activision in January (still awaiting the go-ahead from the regulators, which has become a real issue for the GAFAMs in recent years – see Tech M&A).

Furthermore, we observe a growing penetration of non-technology sectors in the acquisition of Tech companies (see graph below), a sign of the increasing digitalization of the economy that affects all sectors.

**Breakdown of acquisitions targeting technology companies by acquirer's sector of activity (in volume)**




Sources : market data, Natixis CIB Research

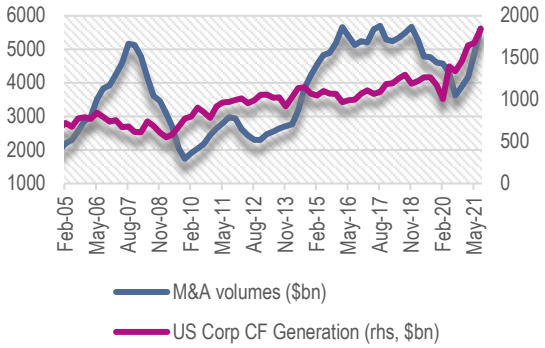
## Outlook for 2022

### Start of the year marked by several mega deals, notably in the tech sector

**2022 is off to a roaring start in terms of M&A activity**, with $350bn of deals announced, completed or in progress in January, the third highest ever month of January for global M&A, with notably a record number of transatlantic mergers (87 deals in excess of $100m, compared with 72 in January 2021). At the same time, several emblematic transactions in the tech sector ($13bn bid by Vista Equity Partners and Elliott for Citrix, Microsoft's aforementioned takeover of Activision, Take-Two's acquisition of Zynga for more than $11bn, again in the video game sector) show that there has been no let-up in the buzz around technology players, and in particular the metaverse.

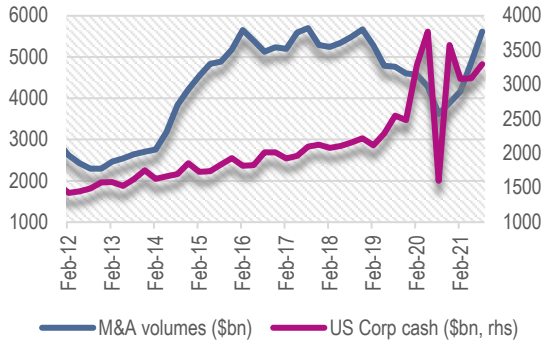
### Very favourable microeconomic conditions for 2022

**Global M&A volumes vs. US Corp CF generation**




Sources: market data, Flow of Funds, Natixis

**Global M&A volumes vs. US Corp cash**




Sources: market data, Flow of Funds, Natixis

**Several leading indicators of M&A activity are holding up**, starting with **fundamental company indicators** such as **balance sheet cash and cash equivalents** and **cash flow generation**.

The left-hand chart above shows that, per the Federal Reserve's Flow of Funds, cash flow generated by US corporations reached record highs in Q3-21 (Q4 data not yet available), while balance sheet cash and cash equivalents for these same corporations (which accounted for half of global M&A deals in volume) have recovered to pre-COVID levels and are now not far off their previous high (see chart right on previous page).

### Economic cycle also very favourable to M&A

Furthermore, though our economists expect a significant slowdown in global growth in 2022 compared with 2021 (see table below), the annual rate of growth that is anticipated will be sufficient, in our view, to bolster free cash flow generated by companies and therefore lead to a further improvement in balance sheet liquidity (at constant scope).

At global level, the growth in GDP (PPP) should still reach 4% this year, after 5.8% in 2021, although the slowdown will be more significant in the Americas. More details concerning our scenario can be found in our publication entitled "**Financial forecasts February 2022: normalisation to accelerate**".

Moreover, **mergers and acquisitions tend to increase at the end of the economic cycle**, as a company's management can be tempted to turn to exogenous growth to compensate for a decline in endogenous growth so as to satisfy shareholder expectations.

**Natixis macroeconomic projections**

| | GDP (YoY) | | | | | Inflation (YoY) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | Chg | 2023 | Chg | 2021 | 2022 | Chg | 2023 | Chg |
| **United States** | 5.7 | 2.8 | ↘ | 1.9 | ↘ | 4.7 | 5.1 | ↘ | 1.8 | → |
| **Latin America*** | 6.0 | 1.1 | ↘ | 1.8 | ↘ | 11.2 | 8.1 | ↗ | 6.5 | ↗ |
| ***Brazil*** | 4.5 | -0.1 | ↘ | 1.8 | ↘ | 10.1 | 5.2 | ↗ | 3.4 | ↗ |
| ***Mexico*** | 4.8 | 1.1 | ↘ | 1.5 | ↘ | 7.4 | 4.1 | → | 3.5 | → |
| **United Kingdom** | 6.8 | 4.1 | ↘ | 2.5 | ↘ | 2.6 | 3.5 | → | 1.6 | → |
| **Euro Zone** | 5.2 | 4.2 | ↘ | 2.7 | ↘ | 2.6 | 3.9 | ↗ | 1.8 | ↗ |
| ***Germany*** | 2.8 | 3.7 | ↘ | 2.5 | ↗ | 3.2 | 4.2 | ↗ | 1.6 | ↘ |
| ***France*** | 7.0 | 4.0 | → | 2.3 | → | 2.1 | 2.4 | ↗ | 1.8 | ↗ |
| ***Italy*** | 6.5 | 4.5 | → | 2.4 | → | 1.9 | 3.0 | → | 1.6 | ↗ |
| ***Spain*** | 5.0 | 6.3 | → | 3.7 | → | 3.0 | 4.5 | ↗ | 1.7 | ↗ |
| **Central Europe **** | 4.9 | 4.9 | → | 3.7 | → | 4.7 | 3.9 | → | 3.4 | → |
| **China** | 7.8 | 5.2 | → | 5.0 | → | 1.0 | 2.2 | → | 1.8 | → |
| **Japan** | 1.6 | 2.6 | → | 1.0 | → | -0.2 | 0.6 | → | 0.8 | → |
| **Asia excluding China and Japan***** | 5.2 | 4.9 | ↗ | 4.0 | → | 2.5 | 2.7 | → | 2.2 | → |
| **World (PPP)** | 5.8 | 4.0 | ↘ | 3.5 | → | - | - | | - | |

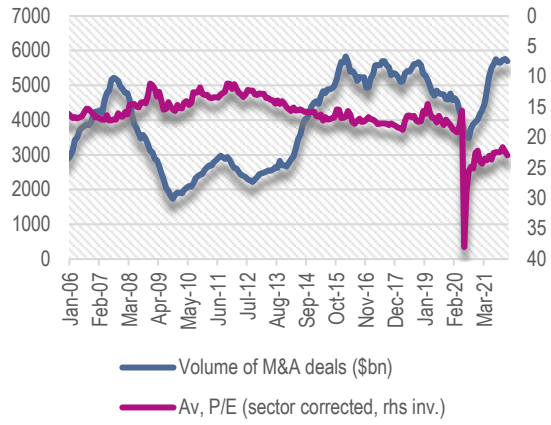
* Inflation & GDP excluding Venezuela; ** Poland, Hungary, Czech Republic; *** Korea, Thailand, Malaysia, Singapore, Hong-Kong, Indonesia, Philippines, India, Taiwan, Vietnam

Sources: market data, Natixis CIB Research

### Equity markets' correction at start of year a blessing for M&A multiples...

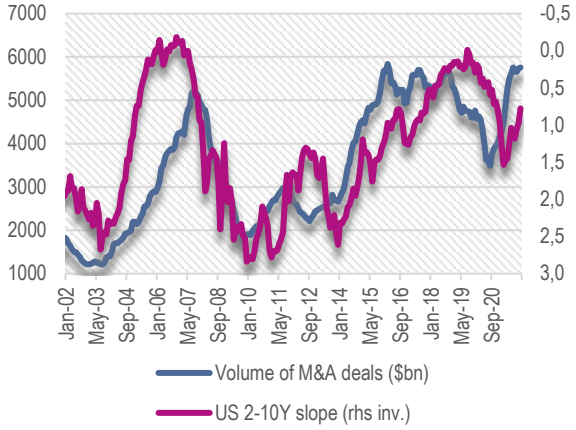
The **decline in P/E ratios observed since the start of the year**, stemming from the equity markets' correction (drawdown of 7% for the S&P 500, of 4% to 5% for leading indices in Europe and Asia), means that acquisitions are less costly in absolute terms, all other things being equal.

**Global M&A volumes vs. S&P 500 P/E ratio**




Sources: market data, Bloomberg, Natixis

**Global M&A volumes vs. US 2-10Y slope**



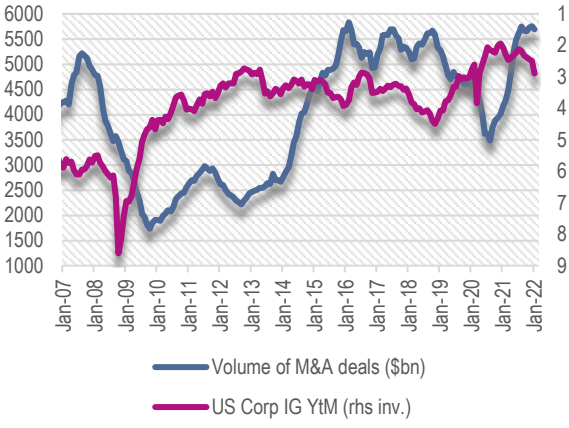

Sources: market data, Bloomberg, Natixis

### … but will substantially increase cost of debt

The equity markets' correction was triggered by an abrupt change in the attitude of central bankers in Europe (BoE and ECB) and especially in the United States. The **re-pricing observed for the EZ yield curve and, especially, the US yield curve is already weighing on the cost of credit** (70bp YTD increase in the average yield of an IG corporate loan denominated in $, see left-hand chart below, almost as much as for those denominated in €), which is bound to calm the ardour of potential buyers (bearing in mind that, on average, 75% of acquisitions are financed by cash and debt). The charts below show that changes in short rates and credit yields are leading indicators for the M&A cycle, with a 6- to 12-month lag.

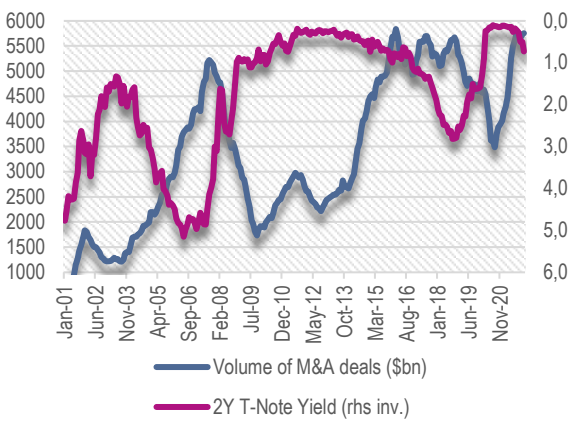
The higher cost of debt will have a more pronounced effect on LBO deals given the significant leverage for this type of transaction (see **3. LBO volumes** for more details).

**Global M&A volumes vs. US Corp IG YtW**




Sources: market data, Bloomberg, Natixis

**Global M&A volumes vs. US 2Y T-Note yields**




Sources: market data, Bloomberg, Natixis

### Rise in long rates will weigh on M&A funding in 2022

According to our strategists' projections (see table below), **the rise in long-term rates observed in Western countries since the end of last year should continue**, due in particular to hikes in the Fed Funds rate (and, to a lesser extent, in the ECB's key policy rate at the very end of the year) and the tapering of the central bank asset purchase programmes.

**Natixis interest rate projections**

| Germany | 12/31/2020 | 12/31/2021 | 1/31/2022 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-22 | Jun-22 |
|---|---|---|---|---|---|---|---|---|---|
| 2-Year | -0.59 | -0.75 | -0.56 | **-0.22** | **-0.14** | **-0.06** | **-0.04** | **-0.13** | **-0.13** |
| 10-year | -0.19 | -0.57 | 0.01 | **0.5** | **0.64** | **0.8** | **0.85** | **0.82** | **0.72** |
| *Fwd* | - | - | - | *0.04* | *0.06* | *0.09* | *0.12* | *0.14* | *0.16* |
| | | | | | | | | | |
| **United States** | **12/31/2020** | **12/31/2021** | **1/31/2022** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-22** | **Jun-22** |
| 2-Year | 1.57 | 0.73 | 1.18 | **1.45** | **1.34** | **1.15** | **1.31** | **1.47** | **1.71** |
| 10-year | 1.92 | 1.51 | 1.78 | **2.01** | **1.98** | **2.24** | **2.39** | **2.46** | **2.53** |
| *Fwd* | - | - | - | *1.86* | *1.91* | *1.95* | *1.98* | *2.01* | *2.04* |
| | | | | | | | | | |
| **Australia swap Yields (end of period)** | **12/31/2020** | **12/31/2021** | **1/31/2022** | **Mar-22** | **Jun-22** | **Sep-22** | **Dec-22** | **Mar-22** | **Jun-22** |
| 2-Year | 0.07 | 0.91 | 1.21 | **1.4** | **1.7** | **1.8** | **1.9** | **2** | **2** |
| 10-year | 0.98 | 1.99 | 2.19 | 2.3 | 2.35 | 2.45 | 2.55 | 2.6 | 2.6 |

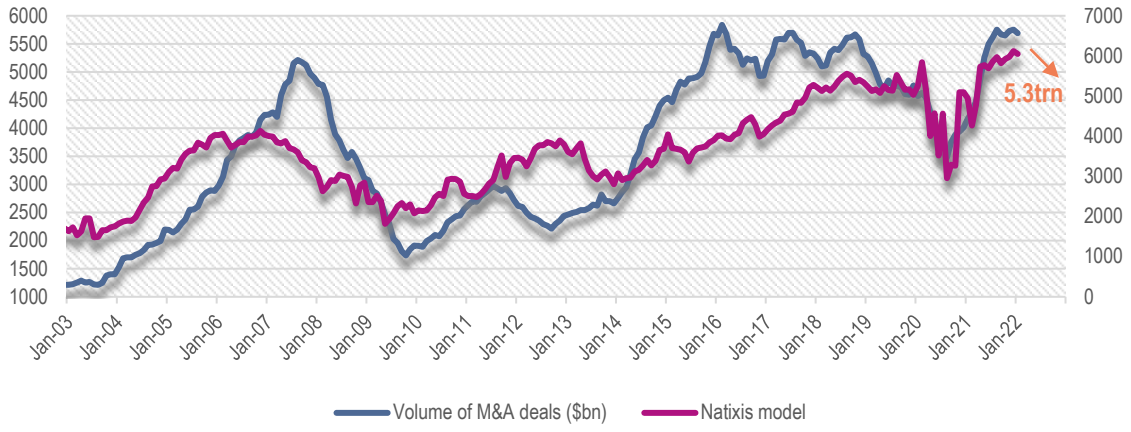
Sources: market data, Natixis CIB Research

### We expect $5.3trn of M&A deals in 2022, down just 8% compared with 2021

Using as explanatory factors in our econometric model, (i) macroeconomic conditions, (ii) the US yield curve, (ii) P/E multiples, (iv) market volatility and, finally, (v) microeconomic indicators (balance sheet liquidity, cash flow generation), we manage to explain 70% of global M&A volumes on a 12-month rolling basis (see chart below).

Overall, we estimate that **M&A volumes are likely to end the year close to past highs at $5,300bn** (or **down 8% from their 2021 record high**). The continuing upturn in interest rates and the impact of the monetary tightening on credit spreads (in H1-22) will bear down, but the very favourable microeconomic conditions and still robust late-cycle growth will encourage many companies to take advantage of the more attractive acquisition multiples to boost their top-line growth.

**Global M&A volumes - Natixis projections ($bn, 12-month rolling basis)**




Sources: market data, Natixis CIB Research

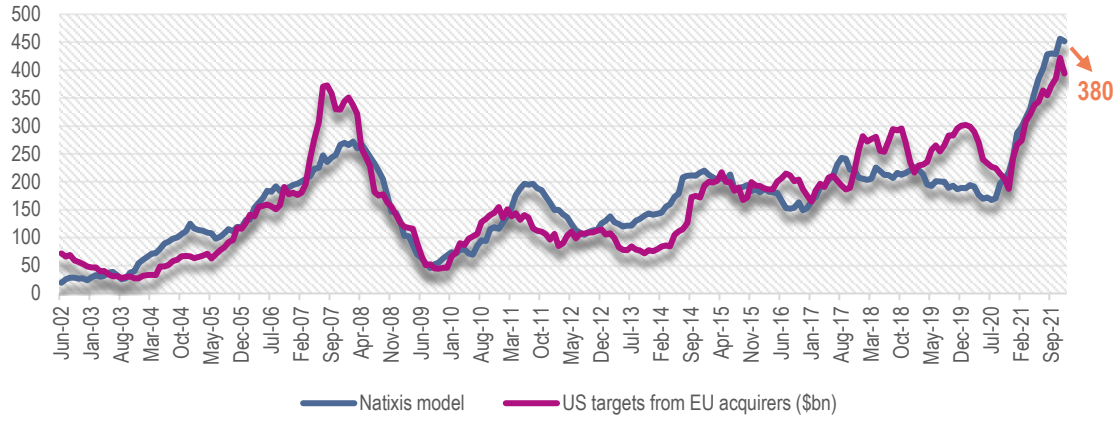
Antitrust and sovereignty issues are also an increased risk for failed M&A attempts. On February 8, Nvidia abandoned its bid for ARM (a $66 billion deal) after facing an unprecedented wall of regulatory opposition (from the US, the European Commission, the UK, China, Japan and South Korea), but also because of sovereignty issues. Regulators were concerned that Nvidia would have had the opportunity to influence ARM's market opportunities (chip architecture) in its favor, which could have been to the detriment of ARM's other current customers (Samsung, Apple, Marvell, Qualcomm... to whom ARM grants licenses), ii/ threaten access to ARM's technology for semiconductor manufacturing in Europe (cf. [1] for more details, EC press release in October 2021), a market that has become highly strategic as illustrated by the Chips Act presented on February 8 by the European Commission.

### Outlook for transatlantic deals

The crossborder merger differential between US acquisition targets by European companies on the one hand and European acquisition targets by US companies on the other hand naturally depends on the EUR/USD exchange rate. On average, a 10% appreciation of the € against the $ tends to favour acquisitions of US companies by their European counterparts to the tune of $35bn in terms of annual volume (relative to transatlantic M&A volumes).

According to our model, the conditions are still present this year for near-record transatlantic deal volumes ($380bn expected for deals by European buyers targeting US companies), despite the slight appreciation of the US dollar against the euro since H2-21.

**Crossborder M&A EU vs. US differential compared with Natixis model ($bn)**




Sources: market data, Natixis CIB Research

[1] https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5624

# 2. China's M&A activity slows down, but with asymmetric pattern for the cross-border inbound and outbound M&A

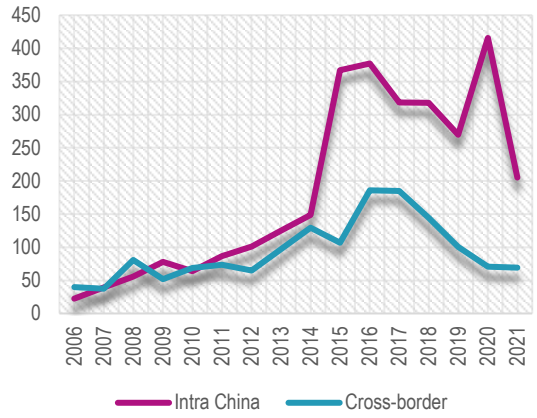
ALICIA GARCIA HERRERO
Chief Economist Asia Pacific
JIANWEI XU
Greater China Analyst

## A snapshot of China's recent M&A activities

The world had witnessed a sharp rise in China's mergers and acquisitions (M&A) activities after 2014, especially for the intra-country deals. But the fast-rising period was proved to be short-term. China's M&A deals, both in number and value, soon peaked during 2015 and 2016, and then started to decline. While one may argue that there are short-term volatilities in the M&A activities, some structural seemed to have already been at play and the situation lasted till now, which led to the current increasingly stagnant M&A market compared to the earlier peak.

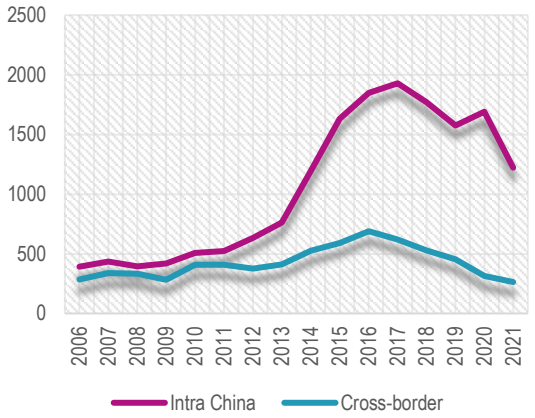
The decline was especially bigger for the cross-border M&A activities, i.e., from $186bn to less than $70bn in value (**Chart 1**) and from 690 to 264 in number (**Chart 2**)[2]. There were also increasingly fewer intra-China M&A deals over the past few years, but the magnitude of its decrease, comparing to the intra-country ones, was not that much, dropping by 36.6% in number and 46% in value from the earlier peak to 2021.

**Chart 1: China's M&A Deal Value**




Source: Mergermarket, Natixis

**Chart 2: China's M&A Deal Number**




Source: Mergermarket, Natixis

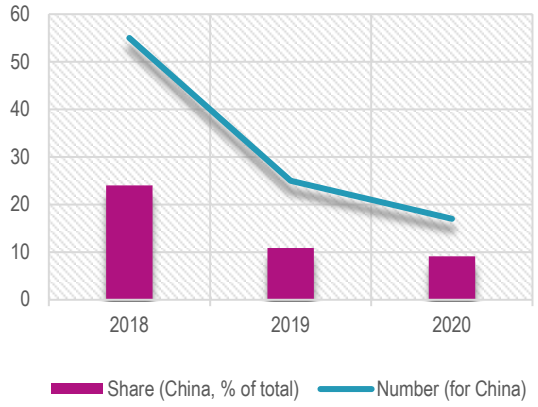
One of the recent factors behind the fall could be the outbreak of the pandemic, which have restricted people's mobility, and, therefore, affected economic dynamics. This fall was particularly strong for the decline in deal value from 2020 to 2021. However, the trend had actually happened as early as 2017 to 2018, which pointed to more structural factors than the recent pandemic. In other words, even if one excludes the impact of the Covid-19, there would have been a downward trend for China's M&A activities as well.

[2] Note that the figures used in this report differs from our M&A monitor which specially focused on China's outbound M&A activities, because here we use the Mergermarket's own definition of main location to assign the bilateral investments instead of using our own definition as that was in the M&A monitor. This serves for the purpose of global comparison.

## Zooming into cross-border M&A activities

Within the cross-border M&A, the retreat of China's outbound M&A is more pronounced than that of the inbound M&A. Part of the reason behind the larger decline in the outbound M&A is the increased regulatory scrutiny from the western countries. For example, the US has tightened the screening rules for The Committee on Foreign Investment in the United States (CFIUS) which now covers all transactions. The China-related deals targeting the US filled for CFIUS have decreased sharply from 2018 to 2020 (**Chart 3**). In the EU, the bilateral investment treaty negotiated for years was also halted recently. All these have established a tougher external environment for Chinese acquisitions towards the west. At the same time, China also imposed a tightened rule on capital control, which contributed to the fall in the outbound M&A from Chinese corporates.

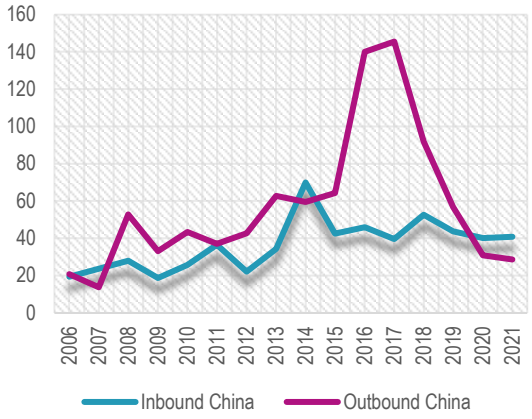
**Chart 3: Covered Notices by Acquirer Home Country or Geographic Economy, 2018-2020**




Source: Natixis, CFIUS - annual report to congress - CY 2020

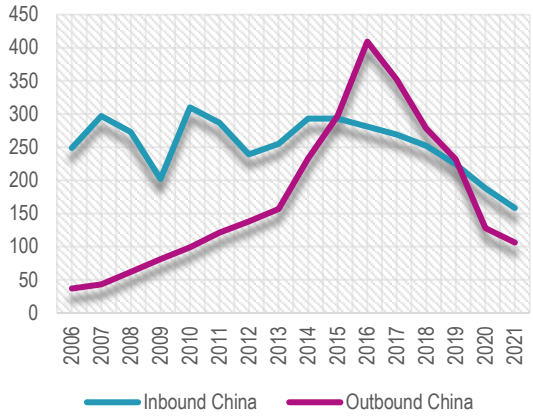
Compared to the decreasing interest of the Chinese enterprises to go abroad, the foreign enterprises' interest in China has shown to be more stable (**Chart 4 and 5**). There were fewer M&A deals in terms of number, but the value of these deals has not changed too much over the past few years. As such, China remained an important M&A target for global companies.

**Chart 4: Cross-border M&A Deal Value**




Source: Mergermarket, Natixis

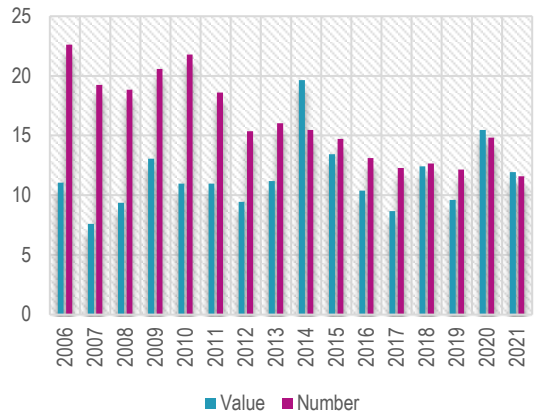
**Chart 5 : Cross-border M&A Deal Number**




Source: Mergermarket, Natixis

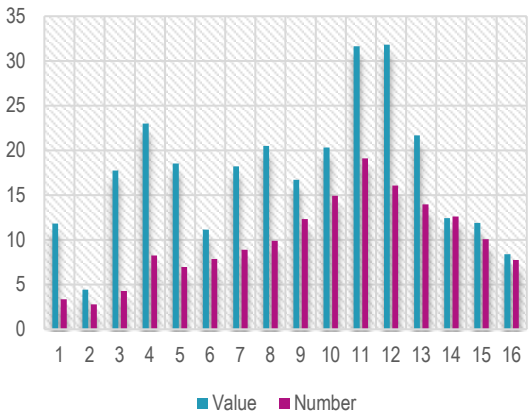
The trend is also observed in terms of China's share in global cross-border M&A market. In 2021, the cross-border M&A flowing into China accounted for 12% of the global M&A in terms of both deal number and value, which was only moderately lower than the earlier peak in 2014 (**Chart 6**). But the cross-border M&A sourced from China was shown with much larger decline. The value share of the latter has dropped to 8% in 2021, as a percentage of global cross-border M&A value, from more than 30% in 2016 (**Chart 7**).

**Chart 6 : Share of China as a recipient in the global M&A market (%)**




Source: Mergermarket, Natixis

**Chart 7: Share of China as an acquirer of global M&A market (%)**




Source: Mergermarket, Natixis

## The inbound M&A into China

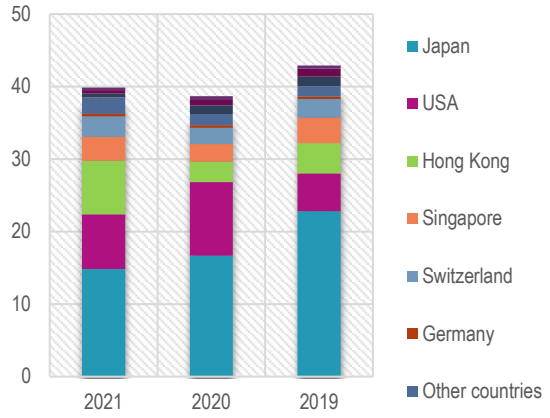
Japan and the US were the major acquirer of Chinese companies in the past three years (**Chart 8**). In 2021, Japan topped by making deals worth of $14.8bn with Chinese targeted firms, followed by the US who acquired $7.5bn. In 2020, the US acquired $16.7bn assets in China, followed by Hong Kong (China) and then Japan.

Compared to US and Japan, European countries have invested less in Chinese M&A market. Germany was the largest acquirer within Europe, but even at its peak, the value of acquisition reached only $5.2bn in 2019 and $2.4 bn in 2020, which was less than that of the US and Japan. In 2021, German acquisition dropped to the 10th place with only $0.4 bn, even smaller than the acquisition value from Switzerland which stood at the 5th place. Following Germany, France was also one important acquirer in the Chinese market with its value reaching $1.1 bn in 2019 and $1.2 bn in 2020.

As regards sectorial distribution, foreign companies have shown a broad interest in Chinese market, ranging from manufacturing sectors (i.e., automobile and electronics) to service sectors (i.e., real estate and financial) (**Chart 9**). More specially, most of these sectors in the manufacturing field are the ones that are defined as strategically important sectors for China's development such as internet and biotech. In other words, global investors are chasing the potential interests following the direction of China's long-term structural transformation.

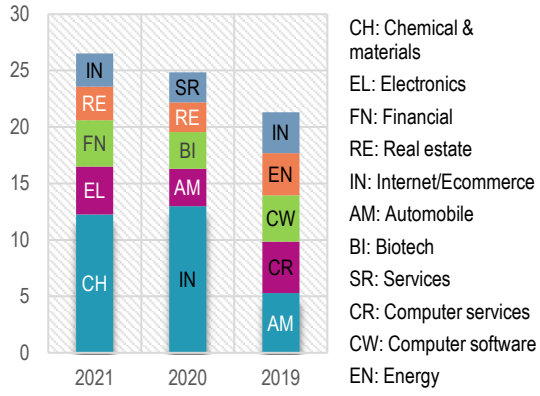
However, the recently more stringent regulatory stance may affect the choice of targeted sectors for foreign companies in the Chinese market. For example, the total value of the internet/e-commerce deals was smaller in 2021 than 2020, which should have gained stronger foothold as the Covid-19 encouraged non-face-to-face business. This indicates the investor's increased caution in accessing internet activities against the backdrop of China's regulatory tightening on the internet sectors.

**Chart 8: The top-10 acquirer locations for inward M&A into Mainland China (USD bn)**




Source: Natixis, Bloomberg

**Chart 9: The top-5 target industries for inward M&A into Mainland China ($ billion USD)**



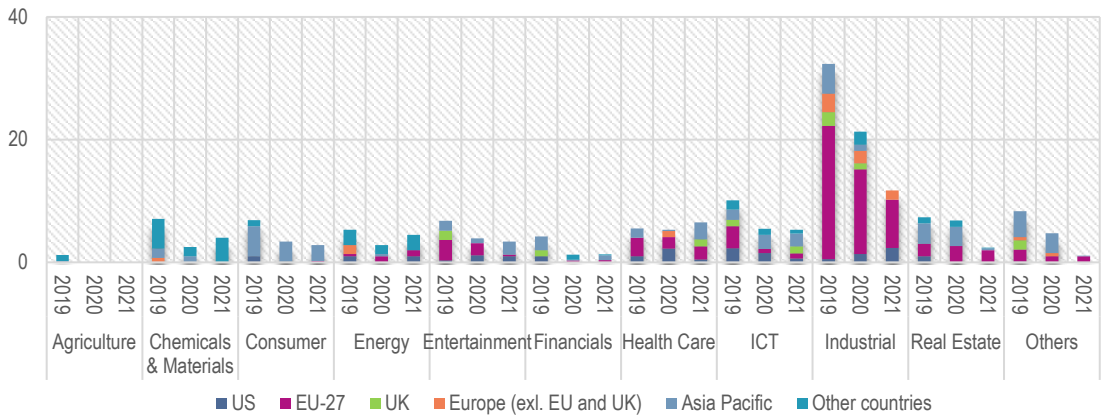

Source: Natixis, Bloomberg

## The outbound M&A from China

Against the backdrop of slower economic growth and tightened western scrunity on Chinese companies, China's completed overseas M&A value has come down recently. Still, Europe attracted the largest number of deals from Chinese companies, followed by Asia Pacific, compared to the other regions. The US recently gained some attraction due to Tencent's additional purchase of Universal Music, but that was still partly linked to Europe as Universal Studio was held by French conglomerate company Vivendi. In 2021, the major destinations for Chinese overseas acquisitions include Chile (State Grid - General de Electricidad), Japan (Hisense - Sandel deal), and Spain (China Three Gorges' purchase of operating renewables).

In terms of sectors, Chinese companies are chasing the ones that can strenghen its manufacturing power. The industrial sectors, especially in Europe, attracts the largest number of M&A deals from China (**Chart 10**). The other key sectors include health care, energy, ICT and Chemical & Materials, which are strategically important for China's sustainable growth. While the entertainment sectors stood out in terms of value in 2021, that was mainly due to the Tencent deal. In fact, China has already issued guidance to curb "irrational outbound investment" in 2017, making it harder for the deals that targets the non-strategically important sectors.

**Chart 10: Regional and sectoral distribution China's overseas M&As. By number of deals**




Source: Natixis, Bloomberg

Another important aspect of the recent trend of Chinese overseas acquisitions is the fewer deals initiated by the state-owned Chinese enterprises. The SOE investment was more focused on Asia Pacific and the other regions than the US and the EU, given the latter's tighter regulation over Chinese acquisitions especially if pursued by SOEs. At the sector level, SOEs are particularly active in the chemical & material and energy sectors but with much less exposure to the consumer sector.

## Conclusion

All in all, the peak of China's M&A activities seemed to have passed. But China remained an important participant in the global cross-border M&A market, especially in terms of its position as a recipient. This is easily justified as China is now the second largest economy in the world with a huge population base, which makes it an important market for global corporates. The US and Japan were important sources for M&A into the Chinese market, while Europe seemed to have lagged behind over the past few years. Most of the deals were chasing the strategically important sectors in China. Compared to the inbound M&A, China's outbound M&A experienced larger decline due to the tightened regulatory environment. China's economic slowdown may have also reduced the incentives of Chinese corporates to go abroad. As these are structural factors, we expect the asymmetric trend for inbound and outbound M&A to continue in the upcoming years.

# 3. LBO volumes

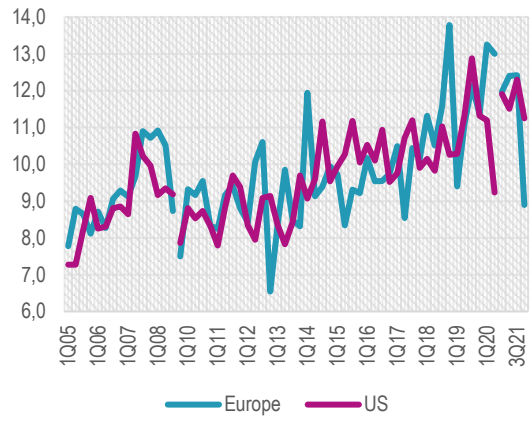
KIRILL TALAI

High Yield Analyst

## Volumes and multiples at historic levels…

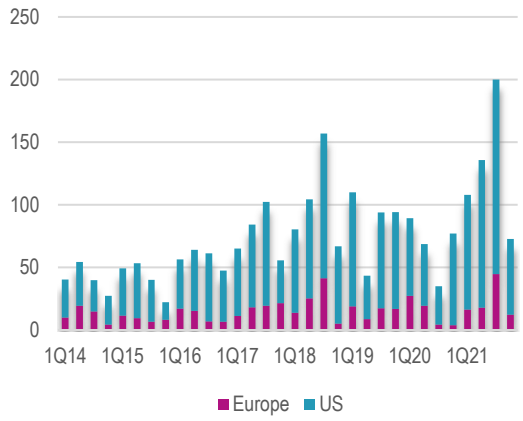
**Global (US and Europe) LBO transaction volume almost doubled in 2021** supported by accommodative monetary policy that resulted in low interest rate environment, tight credit spreads and elevated demand for high yielding assets. **Transaction volume reached €516bn, of which US accounted for €424bn and Europe contributed €92bn**. In 2019 and 2020, global LBO transaction volume stood at €342bn and €270bn, respectively. These historically high volumes last year kept multiples at elevated levels, albeit transactions that were closed in Q4 had slightly cheaper valuations than the year average (see the charts below).

**EV/EBITDA purchase multiple of LBO transactions**




Sources: S&P Global, LCD data, Natixis

**LBO transaction volumes, €bn**

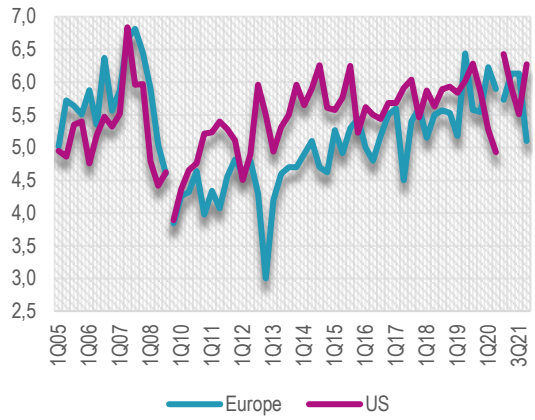



Sources: S&P Global, LCD data, Natixis

## …but relatively stable leverage

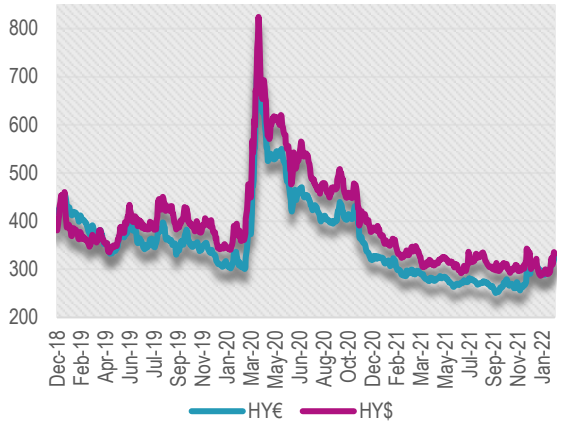
Despite increasing valuations, average leverage ratio (Debt/EBITDA) at transaction is relatively stable with some slight improvement in Europe towards the end of the year. **Since 2013 the average leverage ratio of LBO deals has been in the range between 5.0x and 6.2x across both US and Europe.** That most likely reflects the tolerance level from credit rating agencies for B-/CCC+ notches.

**Leverage ratio of LBO transactions**




Source: S&P Global, LCD data, Natixis

**€ and $ HY spreads**




Source: Markit, Natixis

**On the financing side, spreads saw pre-pandemic lows in US as well as in Europe that, indeed, supported dynamic LBO environment last year.**

## Volatile H1 2022, but activity will return towards H2

**Since the beginning of 2022 the macro environment has changed** – interest rates are increasing in anticipation of rate hikes from major central banks that are fighting inflation. Overall, it is not favorable for highly levered credits as their interest burden substantially increases not only due to higher rates, but also wider spreads. **Therefore, we anticipate that at least in the first half of 2022 LBO market will be significantly less upbeat than in 2021 until central banks pivot and change the extremely hawkish tone on interest hike prospects.** The timing of that will depend, in our view, on the inflation data that we expect to start normalizing towards the end of H1 2022. Once it happens, both attractive valuations and normalized spreads will open door for sponsors to continue with leveraged transactions. However, we do not anticipate transaction volume to be as high as in 2021.

# 4. Summary of Sector Views

| Sector | Activity level | Description |
|---|---|---|
| **Tech** | **High** | The post-Covid digital transitioning of the economy will continue to drive strong Tech M&A dynamics in 2022, in particular in software & platforms, ESG-tech and DeFi. |
| | | However, higher interest rates and increased market volatility may trigger risk aversion whilst tighter regulation may put a brake on larger transactions, particularly those with a cross-border dimension. |
| | | Expect cash rich players to lead the way and a higher proportion of smaller deals (<$1bn) to hit the market. |
| **Telco** | **High** | With revenues and EBITDaL roughly stable over the next 2 to 3 years, consolidation is the only solution to increase FCF (and dividends and share buyback)<br>Slightly lower capex to sales ratio in the coming years can give rooms to some mix for M&A deals (cash, shares, hybrids debts as Vodafone did 3 years ago)<br>All in all, the sector is clearly a mature one, M&A and consolidation on core businesses and/or other segments (IoT, Datacenters, IT, Tower cies, etc.) are key to reduce price pressure, improve margins and FCF |
| **Real Estate** | **High** | By definition, the real estate market is based on real assets and is highly fragmented. Consequently, transactions in this sector are naturally recurrent and numerous. |
| | | The large European real estate companies have played a major role in the consolidation of the sector over the last ten years, the latest being of course the merger between Vonovia and Deutsche Wohnen in the autumn of 2021. A few smaller transactions could still take place in 2022, in a search for critical size and/or the accumulation of core assets. |
| | | But beyond these mergers and acquisitions, the external growth dynamic is based above all on the outsourcing of asset portfolios and the rotation of mature assets, a phenomenon that is likely to continue. |
| **Utilities** | **Low** | European utilities are predominantly focusing on pursuing ambitious capex plans with the objective of aligning their asset base with the emerging contours of the energy transition (renewable energies and nuclear reactors, smart grids and energy efficiency, low-carbon hydrogen) |
| | | Some mid-sized players (EDP or its subsidiary EDPR, RWE or Orsted) as well as independent renewable energy project developers with substantial project pipeline (>1 GW) could be a potential target for major Oil & Gas groups willing to accelerate their diversification away from fossil fuels |
| **Oil &Gas** | **High** | Major Oil & Gas groups including North-American giant Exxon face mounting political and societal pressure to accelerate phase out from fossil fuels<br>European players have embarked on aggressive diversification strategies towards low-carbon energies (renewable energies, low-carbon hydrogen, e-fuels, etc.) and have regained financial leeway through high hydrocarbon prices<br>Majors may sell higher volumes of mature Oil & Gas E&P assets potetnially to mid-sized players |

| Sector | Activity level | Description |
|---|---|---|
| **Auto Equipment** | **High** | Transition to EV/AVs will force auto suppliers to diversify away from ICE technology towards electronics<br>Transaction such as Faurecia-Hella will be common<br>Companies are increasing capex and expand externally via M&A |
| **Healthcare** | **High** | European medical pathology sector has been one of the largest beneficiaries of the pandemic, comapnies generated historically high FCF that used to fund external growth.<br>M&A is the way to create value in the insudtry with broadly fixed costs. We expect this to continue over next 5-10 years. |
| **Banks** | **High** | Structural factors have played a major role in the low profitability of EU banks, such a heavy and costly branch structure, and overcapacity |
| | | In addition to organic measures to improve profitability, we think that a consolidation has the potential to deliver both cost synergies and a reduction of overcapacity |
| | | The easy use of negative goodwill to make M&A operations, there still being opportunities with the banks' low valuation |
| | | We still do not expect anything other than domestic deals in 2022. The last step to complete a banking union is still missing |
| **Insurance** | **High** | M&A transactions will be driven by different strategies : refocusing on core activities, expansion and diversification. These strategies will help insurers to achieve growth, withstand the impact of low interest rates and regulation constraints on the sector and ensure a stable financial solidity in the long term |

| Global macro view | Activity level | Description |
|---|---|---|
| **Pharmaceuticals** | **High** | US majors (Merck, Amgen, J&J and Bristol-Myers) have high cash levels and most likely pursue M&A |
| **Chemicals** | **High** | Strong balance sheets and healthy cash positions after a robust 2021 in an already mature industry with moderate organic growth raise the risk of a shift to more aggressive financial policies |
| **Packaging** | **High** | Profitability will remain under pressure for most packaging companies because of input cost inflation and rising energy and transportation costs. Sustainability remains a key topic on the agenda of policymakers |
| **Packaged goods** | **High** | M&A activity will pick up as large strategic companies (Unilever, P&G, Colgate, Nestle) capitalize on changes in consumer trends |
| **Packaged food** | **High** | Current environment is relatively supportive for dynamic M&A activity in 2022 as costs are rising due to inflation and marketing expenses are recovering to support sales in the post covid world. |
| **Fashion retail** | **High** | Sustainability is the theme with new innovative brands emerging in this field creating a potential threat for existing players. Mid to large size companies in the fashion industry might pursue M&A activity to gain both expertise and customer loyalty |

# 5. Tech M&A

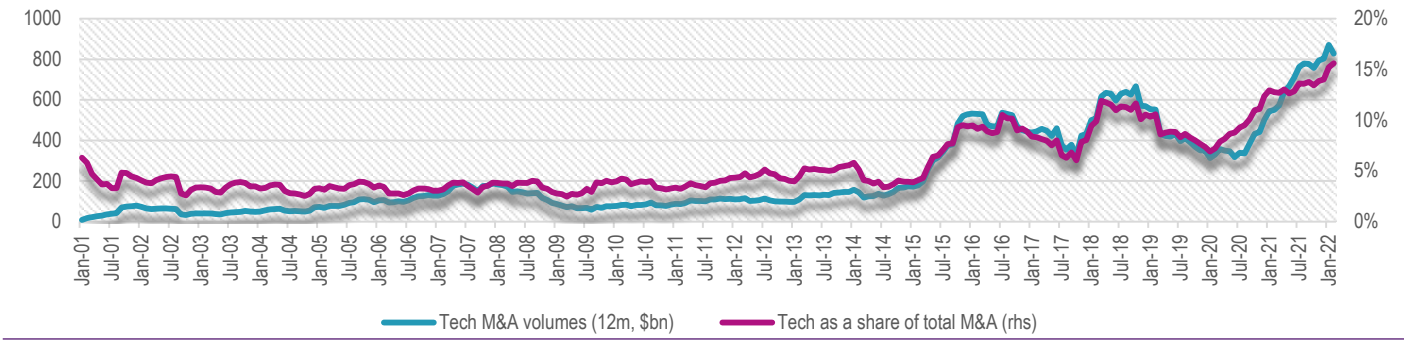
ERIC BENOIST
Tech & Data Specialist

2021 was a record M&A year for the Tech industry. In total, the sector produced $804bn worth of M&A deals, a 61% increase on 2020, and some highly visible transactions.

**Top Tech M&A Transactions in 2021**

| Announcement Date | Target Name | Sector | Acquirer Name | Seller Name | Announced Total Value ($mn) | Payment Type | Deal Status |
|---|---|---|---|---|---|---|---|
| 20/12/2021 | Cerner Corp | Health Tech | Oracle Corp | | 29 005 | Cash | Pending |
| 12/04/2021 | Nuance Communications Inc | Speech Recognition | Microsoft Corp | | 17 241 | Cash | Pending |
| 23/09/2021 | athenahealth Inc | Health Tech | Bain Capital Private Equity LP ,Hellman & Friedman LLC | Veritas Capital Fund Management LLC, Evergreen Coast Capital Corp | 17 000 | Cash | Pending |
| 06/01/2021 | Change Healthcare Inc | Health Tech | UnitedHealth Group Inc | | 12 807 | Cash | Pending |
| 05/11/2021 | McAfee Corp | Cyber Security | GIC Pte Ltd,Canada Pension Plan Investment Board,Abu Dhabi Investment Authority,Permira Holdings LLP,Advent International Corp ,Crosspoint Capital Partners | | 10 983 | Cash | Pending |
| 10/08/2021 | Avast PLC | Cyber Security | NortonLifeLock Inc | | 9 363 | Cash and Stock | Pending |
| 10/11/2021 | Wolt Enterprises Oy | Food Deliveries | DoorDash Inc | Private Investor,ICONIQ Capital LLC, Inventure Oy, Lifeline Ventures Fund Management Oy, Highland Europe UK LLP, EQT Partners AB, Tiger Global Management LLC | 8 058 | Stock | Pending |
| 23/04/2021 | Blue Yonder Group Inc | Supply Chain Management | Panasonic Corp | New Mountain Capital LLC, Blackstone Inc | 7 100 | Cash | Completed |
| 09/06/2021 | Datavant Inc | Health Tech | CIOX Health LLC | Johnson & Johnson Innovation - JJDC Inc, Private Investor, Roivant Sciences Ltd, Flex Capital LLC, Cigna Ventures LLC, Transformation Capital Partners | 7 000 | Cash | Completed |
| 27/01/2021 | Perspecta Inc | Data Services | Peraton Inc | | 6 475 | Cash | Completed |
| 15/12/2021 | CMC Materials Inc | Advanced Materials | Entegris Inc | | 6 473 | Cash and Stock | Pending |
| 08/02/2021 | Dialog Semiconductor Ltd | Semiconductors | Renesas Electronics Corp | | 5 593 | Cash | Completed |
| 26/07/2021 | Medallia Inc | Customer Experience Software | Thoma Bravo LLC | | 5 477 | Cash | Completed |
| 05/08/2021 | Cornerstone OnDemand Inc | People Development Software | Clearlake Capital Group LP | | 4 840 | Cash | Completed |
| 11/10/2021 | Aspen Technology Inc | Industry 4.0 | Emerson Electric Co | | 4 778 | Cash and Stock | Pending |
| 01/06/2021 | Cloudera Inc | Data Services | Clayton Dubilier & Rice LLC, KKR & Co Inc | | 4 610 | Cash | Completed |

**Recent evolution of Tech M&A volumes**



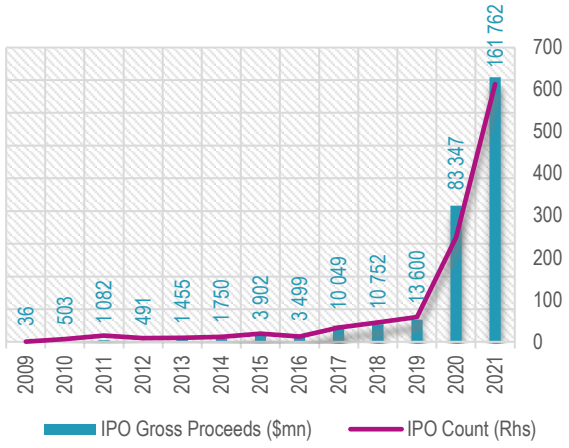

Sources: Bloomberg, Natixis

## There are three main reasons for this success:

- The Covid-19 pandemic accelerated the need for an effective **digital transition** across all industries. Rather than developing skills internally, many companies chose to move faster and acquire the necessary know-how externally.

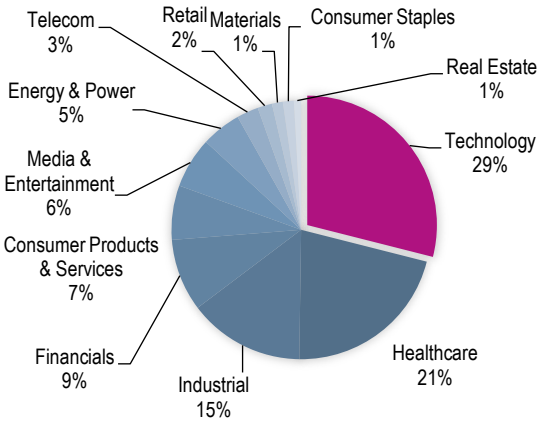
- Funding has also been extremely abundant. Corporates, with very significant help from governments, generally did well to preserve their cash reserves during the crisis. Many also had access to **cheap debt financing**, either through the bond markets or credit facilities. In addition, **private equity funds** enjoyed unparalleled firepower (one notable example being the $11bn acquisition of McAfee by a group of investors including Advent International, Permira Advisors and the Canada Pension Plan Investment Board). Finally, **SPAC vehicles** continued to attract tech entrepreneurs with promises of faster IPO routes and fairer day-one valuations (there were 221 de-SPAC mergers in the US in 2021, 29% of which involved a Tech target).

**US SPACs IPO Gross Proceeds ($mn) and deal count since 2009**




Source: SpacInsider, Natixis

**Number of de-SPAC deals in the US by target industry (2021)**




Source: White & Case, n=221

- **Sky-high equity valuations** encouraged many companies to rationalise their portfolio of assets, divesting mature activities to refocus on faster-growing businesses, or monetising non-strategic gems. For instance, Johnson & Johnson announced the spin-off of its consumer healthcare division to accelerate innovation and advance technological progress at the firm.

## Will it all last in 2022?

There are clearly strong supporting factors:

- The **digital transitioning** of our economies is far from over and we are likely to see more "old world" companies adding tech expertise by way of M&A transformation.

- Within Tech itself, early **signs of a slowdown** are beginning to appear…Supply chain disruptions, semiconductor shortages, cost inflation, difficulties to source qualified labour are putting pressure on both toplines and margins. Prominent companies such as Meta Platforms, Roblox, Paypal, Palantir, Netflix, Beyond Meat or Activision all disappointed investors in 4Q21 and experienced impressive double digit drawdowns as a result. Even though we believe that it is still too early to talk about the end of the current business cycle, many CEOs will consider external growth as a mean to maintain their initial trajectory.

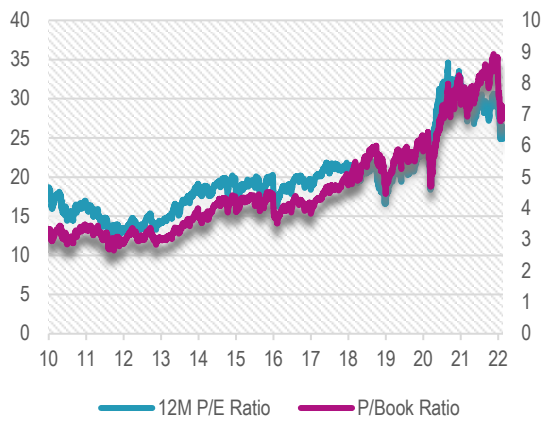
However, we also see powerful headwinds curbing the momentum of previous years:

- Central bank normalisation will mark the **end of free liquidity** and may trigger higher risk aversion on the part of PE and VC funds.

- **Higher interest rates** will of course add to the cost of debt. They will also lead to the compression of valuation premiums, a phenomenon that has been particularly marked since November in the tech sector.

On the one hand, optimists will say that this can provide more attractive entry points in the near future and that the timing is ideal for bargain hunting. Pessimists, on the other hand, will point to the weakening of their capacity to pay for targets in stocks or to divest businesses at the right price.

**Nasdaq: 12M P/E and P/Book Ratios**



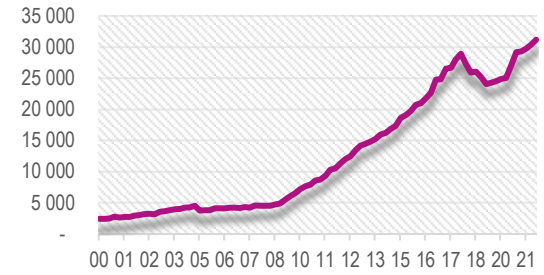

Source: Bloomberg

- **Regulatory constraints** will deepen and Big Tech companies will be under intense anti-trust scrutiny. The cancellation of Nvidia's $40bn bid to purchase Arm is the latest example of such mounting pressure. It also underlines the fact that this regulatory oversight will increasingly take a cross-border dimension: in the UK, the CMA required Facebook to sell Giphy after 18 months on the grounds that the deal had created too great a market imbalance for local competitors. In many European countries, Foreign Investment Control rules have been tightened to include tech sectors such as data services, storage, processing and security as governments try to protect their national interest more aggressively in the post-pandemic era. Finally, the increased supervision of SPACs in the US - and in particular the tightening of disclosure rules regarding potential shareholder dilution and sponsor incentives - will lead to a sharp reduction in volumes in this area.

**All in all, 2022 should still be a decent year for Tech M&A but in the current macro-economic and regulatory context, we anticipate stable YoY volumes at best.**

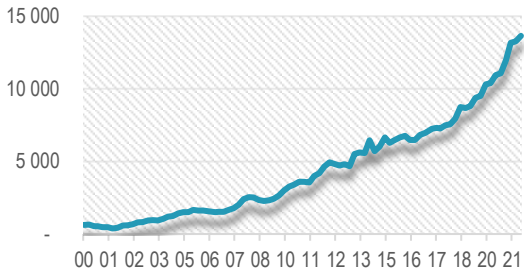
- **Cash will be king** and those companies with the most robust balance sheets and strongest Free Cash Flow (FCF) generation will naturally lead the way. In the Tech world, this is hardly an issue. Our data shows that the largest 34 Nasdaq companies (roughly 85% of the market cap of the index) enjoyed an average "cash + marketable securities" position of $31bn at the end of September 2021. The same companies also produced an average 12-Month trailing FCF of $13.6bn at the same point in time, more than double what they did 5 years earlier. Meanwhile, industries exhibiting smaller cash reserves will no doubt have to take a more cautious approach.

**Top 34 Nasdaq Companies: average cash + marketable securities ($mn)**




Source: Bloomberg

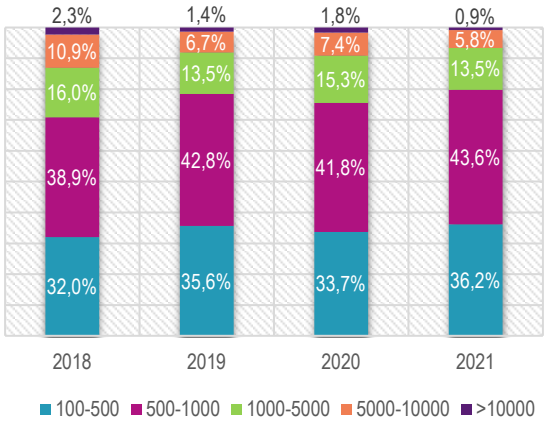
**Top 34 Nasdaq Companies: average Free Cash Flow generation ($mn)**




Source: Bloomberg

- Although several jumbo Tech M&A transactions such as the recent $69bn Microsoft / Activision takeover may still hit the markets this year, we believe that the proportion of **smaller deals** (< $1bn) will increase as a way to defend against regulatory risk. In 2021, 79.8% of Tech M&A transactions had a notional of less than a billion dollars vs. 75.5% in 2020 and 70.9% in 2018: in our view, this trend should persist in the coming months.

**Proportion of Tech M&A transactions above a specific notional ($mn)**




Sources: Bloomberg, Natixis

## Where will Tech M&A be most noticeable?

We would monitor the following fragmented ecosystems for consolidation or strategic acquisitions by non-tech companies:

- **Software-as-a-Service (SaaS) & Platforms**: as businesses continue to migrate to the Cloud and embrace a more systematic digitisation of their operations, we expect M&A activity to remain elevated in fields such as supply chain management, cybersecurity, data processing and AI services. Platform companies could also attract a lot of interest from incumbent players seeking to expand their distribution channels online (insurance, healthcare, specialised e-commerce, gaming etc…).

- **ESG-Tech**: corporates will focus on improving their ESG credentials and will be tempted to acquire technologies that can help them appear on the radar of green finance investors or satisfy the Scope 3 criteria of their main clients. Clean Tech, Energy storage, batteries and advanced materials will therefore be in demand.

- **Crypto-assets and DeFi**: the crypto-economy is now too big to be ignored and we expect a wave of consolidation in custody and lending services. The $1.2bn acquisition of BitGo by Galaxy Digital Holdings in May 2021 was the first ever billion dollar deal in the crypto-currency industry. We expect it won't be the last. The recent enthusiasm for NFTs will also create opportunities. Crucially, traditional financial institutions may have to start spending in order to stay relevant.

# 6. TMT – M&A, I love you, I love you not

BENOIT MAYNARD

Infrastructure & Natural Resources

Relations between the TMT sector and M&A have survived the test of time, producing a steady flow of rumours. **There have been three phases**:

## The bubble

**The first phase** was marked by a certain euphoria, leading to a multitude of acquisitions over the period 1998 to 2002, driven by the merger of Time Warner and AOL (announced in January 2000) and above all by the liberalisation of the European telecom market in 1998, paving the way for cross-border mergers. The United States was engulfed by this wave: in 1997, there were 13 fixed-line telecom operators (excluding cable); by 2006, there were just three.

## Back to reality

With the bubble subsiding, the second phase was all about rationalising business portfolios. Debt levels were high, while free cash flows had dissipated, which meant that asset disposals were needed.

There were also some mergers during this phase. **The most significant, in our opinion, was that of Deutsche Telekom and Orange in the United Kingdom**, giving rise to EE. During this phase, other standouts include, more recently, the simplification of the Altice group structure, which saw the operator, after a bulimia of acquisitions, decide to give more operational visibility to its various entities.

## New momentum possibly...

**Horizontal and/or vertical consolidation?**

The third phase that seems to be emerging can be seen from two angles: **(1)** horizontal M&A deals or in-fill consolidation; and **(2)** vertical M&A deals or capacity consolidation.

### Horizontal consolidation

When it comes to horizontal M&A, there have, and there will continue to be diversifications into ancillary business lines, intended to round off a portfolio by **adding new activities** (cyber security, IoT, data centres, cloud, etc.) and/or entering new geographical markets.

Bear in mind, however, that these are likely to be minor deals, save for the odd exception. As regards minor deals, telecom operators could show a growing interest in the IT sector. In terms of incremental growth in revenue and EBITDaL, these deals are likely to be marginal, but will enhance the perception of telecom operators, which will be seen as having a more dynamic profile, i.e. a more Tech and less Utilities image.

**Geographical diversification could be difficult to justify without an already established local presence**. However, it should be noted that the Iliad group, with its investments in Italy, Ireland (minority shareholding) and Poland, has managed to internationalise its portfolio, which was accomplished taking only a measured financial risk. The group's leverage ratio was 2.75x at 30 June 2021. It was 3.1x after the acquisition of UPC Poland (Play brand).

### Vertical consolidation

When it comes to vertical M&A deals, our view is that **the fixed-line segment will remain dynamic**.

There is a myriad of "small" local/regional companies in Europe offering fixed and/or mobile services (MVNOs). These companies do not have critical mass and are targets for the large operators.

In France, cases in point are Jaguar Network, snapped up by Iliad, and Coriolis, snapped up by Altice. More recently, there was the acquisition of Voo by Orange Belgium.

### Consolidation of mobile telephony: EC's position remains unclear

As regards mobile telephony, **merger rumours are proliferating**, particularly in Italy (Iliad and Vodafone, but this was promptly denied by Vodafone) and in Spain (Orange and MasMovil).

There are five countries that lend themselves to such a scenario, being those with four operators: Italy, Spain, the United Kingdom, France and Denmark. Until now, **the European Commission**, through the voice of Margrethe Vestager (Executive Vice-President, in charge of Digital Agenda and Competition), **has always opposed a reduction in the number of mobile operators in Europe** (Denmark, UK or Italy).

For the last five proposed mergers in this segment, the European Commission has requested remedies, mainly asset disposals and wholesale agreements to ensure there would continue to be effective competition (MVNO or new entrant in the case in Italy).

**In early February, the UK regulator Ofcom said that it was no longer dead-set ideologically on the need to have four operators**.

**European Commission appears more open to a strengthening of incumbent operators**

### Could the European Commission mollify its position?

Operators are working on this. **One only has to listen to Vodafone's call conference last November on the occasion of the publication of its 2021-2022 half year results to understand that there is increasingly intense lobbying by operators for a vertical consolidation**, what Vodafone calls an in-market consolidation. The example of the merger between T-Mobile USA and Sprint in the United States, which led to the number of operators being reduced from four to three, will of course be held up as an example in this lobbying.

For its part, the European Commission could also emphasise the need for European operators to close ranks and become more competitive, in order to at the same time: (1) optimise their capex and ultrafast broadband coverage; (2) be better able to fend off the GAFAM, in particular in their capacity as content providers; and (3) possess more leeway, in terms of FCF, in order to invest in innovative segments (IoT, AI, Cloud, cyber security, etc.).

### What about the financial engineering?

**Large number of options for funding M&A deals**

As always, **there is a multitude of options for funding M&A deals**. You can be sure bankers advising telecom operators will come up with financial engineering solutions to optimise the capital structure of these mergers.

The simplest, least expensive way is to **create a joint venture**, as done by Vodafone and Ziggo in the Netherlands, even though this deal did give rise to some cash payments to achieve a 50:50 parity.

The second option, chosen by T-Mobile and Sprint in the United State, is for **an all-share deal**, but the parties need to be publicly listed or independent auditors need to be able to determine a "fair price". With the Iliad group, these independent auditors considered in November 2019 that €120 per Iliad share for a partial public offer was "fair", but less than two years later, the group launched a public offer at €182 per share.

The third option is **an all debt-financed deal**. Despite inflation rates starting to be elevated and interest rates that are on the rise, **the weighted average cost of debt (WACD) of telecom operators remains low**, ranging from around 1.75% to 2.25%. The sector benefits from

comfortable operational visibility. Consequently, a rise in rates would not penalise this type of business combination.

The fourth and more complex option, which cannot be ruled out, would be **multiple financings**. A good example is the acquisition by Vodafone of Liberty Global's assets (in Germany, the Czech Republic, Hungary and Romania) in May 2018 for €18.4bn. This transaction was financed by: (1) cash; (2) a call on the bond market; (3) the issuance of hybrid debt; and (4) the issuance of convertible bonds.

## What amounts are at stake?

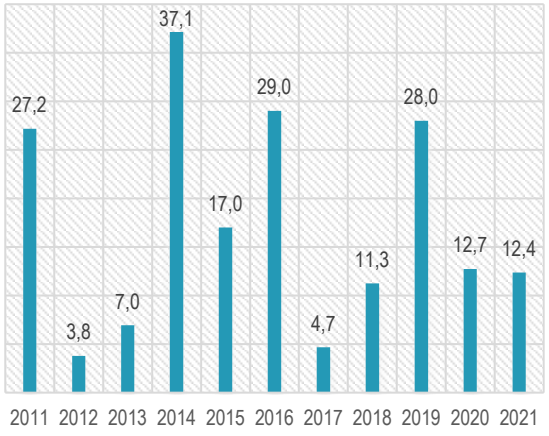
As we saw in the first part, the M&A market for the telecom sector has always been dynamic, both in terms of acquisitions and portfolio overhauls (disposals).

**Deal volumes in Europe have been very erratic.**

Over the last decade, global deal volumes in Europe have been very erratic from one year to the next (see left-hand chart below), **not in any way dictated by interest rate increases/decreases**, averaging €17bn per year, but with a very pronounced dispersion.

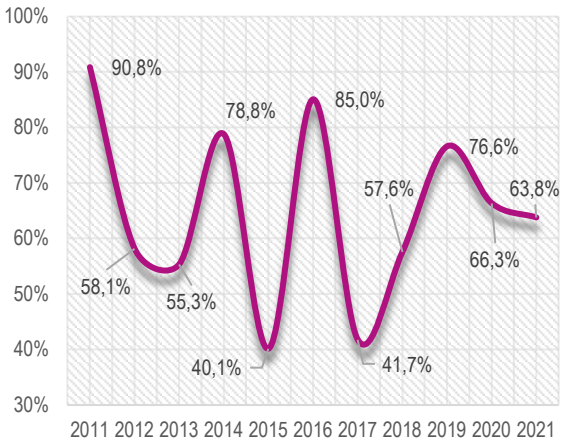
It should be noted that, in any year, the three biggest transactions/mergers can have a huge bearing on deal volumes, having averaged 73% of deal volumes over the last decade. As an illustration, the biggest transaction in 2021 (sale of Altice subsidiary Hivory to Cellnex) was based on a valuation of €5.2bn at 100%. In the same year, the fifth biggest transaction in value (the acquisition of Cancom SE by Telefonica) was completed for €400m.

**Transactions in telecom sector in Europe, Middle East, and Africa ($bn)**




Sources: Bloomberg, Natixis

**Weight of three biggest transactions in telecom sector in Europe, Middle East, and Africa (%)**




Sources: Bloomberg, Natixis

## Generous valuations?

Based on the nine significant in-market consolidation transactions that were successfully completed, **the average EV/EBITDA multiple (before any adjustment) comes to 8.3x, which is rather generous considering the sector multiple is somewhere between 6.5x and 7.0x**.

This differential is explained by the significant synergies that can be generated by an in-market consolidation.

We have identified 14 major transactions (in the United States and Europe) for which, when they were announced, details were released as to expected opex and capex synergies. **On average, synergies represented 5.8% of the operating expenses of the new entity and**

**10.8%** of the capital expenditure of the new entity. Bear in mind, however, that there were significant disparities from one deal to the next.

These synergies generally materialise two years on, after incurring restructuring costs in the interval, and play in full in the fifth year. It should be noted that, in their vast majority, these synergies are stated before tax. Finally, expected synergies are stated at their net present value, without any details being released concerning the calculation of the discount rate.

Explanations concerning **incremental FCF** resulting from these synergies are rarely provided:

- Are they passed on to customers? Possibly in the form of promotions in order to capture market share in volume, thus justifying the strategy adopted by management.
- Are they passed on to the shareholders? Possibly in the form of more generous dividends and/or share buyback programmes.
- Are they passed on to the banks? Possibly leading to a reduction in exposure to the credit market, thus reducing weighted average cost of debt.
- Are synergies stated after or before tax, and what discount rate was applied?

# 7. European utilities/oil & gas majors: no huge M&A wave, but rather some infill acquisitions at local level

IVAN PAVLOVIC

Infrastructure, Green & Hybrids

**In the European energy sector (electric utilities and oil & gas majors), the possibility of a resurgence of M&A activity in 2022 would not seem to stem from the combination of an upturn in interest rates and a slowdown in growth, but rather come against the backdrop of high energy prices (for crude oil and gas) and increasingly pressing climate challenges**.

**Bear in mind that a significant upturn in interest rates would be globally neutral on the financial profile of oil & gas majors** (BP, Eni, Repsol, Shell and Total), which command what are very high credit ratings in the corporate sector (in their majority around single A) and have capital structures traditionally denoted by low debt levels (leverage of less than 1.5x). Better still, these majors benefited in full last year from the spectacular increase in crude oil and gas prices, driving up free cash flows after dividends and share buybacks. **On the other hand, such an upturn in interest rates would have for effect to crimp the strategic and financial leeway of Europe's leading electric and gas utilities** (mainly EDF, EDP, Enel, Engie, Iberdrola, Naturgy, Orsted and RWE). These names are on lower credit ratings (in their majority rated BBB/BBB+) than oil & gas majors, are more capital intensive, more indebted (leverage excluding provisions more than 3x) and less likely in the short term to benefit from the recent surge in energy prices in Europe.

In this context, **any M&A deals by either group of players in the European energy sector should be prompted by long-term strategic considerations inherent to their business profile**, in a sector context denoted by:

- **More pressing climate challenges and the widespread adoption of climate neutral targets/ambitions by developed economies** (climate neutral targets announced officially by the European Union, United States and United Kingdom with a 2050 deadline, while China's ambition is to achieve climate neutrality by 2060). **This general context is encouraging the implementation of public policies aimed at exiting, as soon as possible, fossil fuels** (coal, oil, gas) **in a number of sectors** (electricity and heat generation, mobility, industry). **For companies in the energy sector, this political environment could be the source of a potential erosion in the economic value of the asset base being exploited** (in other words asset stranding) **to the extent tied to fossil fuels**. Faced by this risk, the companies concerned have no choice but to refocus all or part of their investments into energy sources and/or technologies that are low carbon or favour carbon neutrality (for example carbon capture technology).

- **Correlatively, transformation efforts towards carbon neutrality by all major European utilities and virtually all European oil & gas majors**: exit from coal and investments channelled exclusively in new low-carbon capacities (renewable or nuclear) by electricity producers, active revenue diversification strategy towards the production of renewable electricity, low-carbon hydrogen and synthetic fuels (methanol, e-kerosene, etc.) by oil & gas majors.

  **Note that at the level of the global oil & gas industry, announcements of net zero 2050 ambitions first came from European majors, the trailblazer in this matter being Repsol (December 2019), only later from North American majors**, notably Chevron (October 2021), and just recently Exxon (January 2022). It should be added that for the latter, this ambition concerns the carbon footprint of the assets exploited (scope 1 and scope 2), not that of the products marketed (scope 3).

- **A surge in the prices of oil and gas** (with Brent having jumped by 80% and TTF[3] by 210% since end-2020), **providing oil & gas majors with significant financial leeway to initiate or accelerate their transformation/diversification** towards low-carbon activities presently carried on by European utilities.

In light of these different factors, **three different categories of players can be identified**:

- **European oil & gas majors, also possibly their North American peers, which appear potentially poised to make significant acquisitions (more than, even way more than €2bn) in the renewable energy sector.** In a market context favourable to upstream assets in exploration & production on account of current prices for oil & gas, **this could itself be helped along by an intensification of existing asset rotation programmes**. Buyers of upstream assets put up for sale would have the profile of more regional players, under less pressure from shareholders and other stakeholders over climate-related issues, and pursuing strategies seeking to maximise value taking advantage of elevated oil and gas prices.

- **Intermediate-sized European utilities specialised or quasi-specialised in the development of renewable energy capacity (EDP, Orsted, RWE), which are potential targets, despite sometimes having shareholder structures that are not propitious for their takeover by third parties** (20% of the capital of EDP is held by China's CTG, while a majority of the capital of Orsted is held by the Danish State). **Otherwise, targets in this category could be independent project developers with a significant pipeline under development (capacity in excess of 1GW).**

- **Other large European utilities** (mainly EDF, Enel, Engie, Iberdrola) **are likely to remain on the sidelines.** They are both protected by their size and/or pursue ambitious organic growth strategies focused around the energy transition, drawing upon:

- Strong geographical positions (notably Enel and Iberdrola in Latin America for the rollout of renewable capacity and electricity networks); and/or

- Reaffirmed political support (EDF for the development of additional nuclear reactors in France as well as the United Kingdom).

- Note that for a player like Engie, an accelerated development in renewable energies in coming years will serve to offset the revenues foregone as a result of exiting nuclear energy in Belgium in 2025. On the occasion of the recent publication of its annual results, Engie confirmed it wanted to increase renewable energy installed capacity from 34GW at end-2021 to 50GW in 2025 and 80GW by 2030. Achieving these ambitious objectives implies there being an acceleration in the development of the installed base (3GW brought into service in 2021). The challenge for the group will be to demonstrate its capacity to achieve these objectives relying predominantly on organic growth, fuelled by the pipeline of projects currently in portfolio (66GW).

-

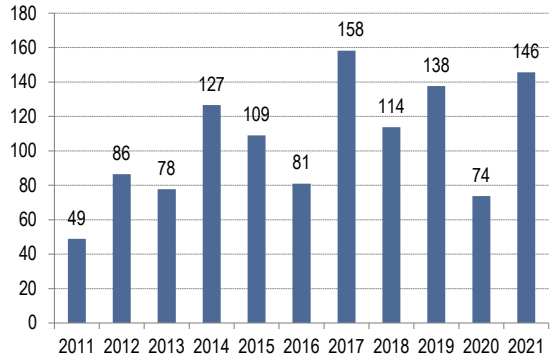
[3] Title Transfer Facility (TTF) is a virtual trading point for natural gas in the Netherlands and the main benchmark for gas imports in Continental Europe

# 8. Real estate: emblematic transactions largely wrapped up since 2011

STÉPHANIE DOSSMANN
Real Estate analyst

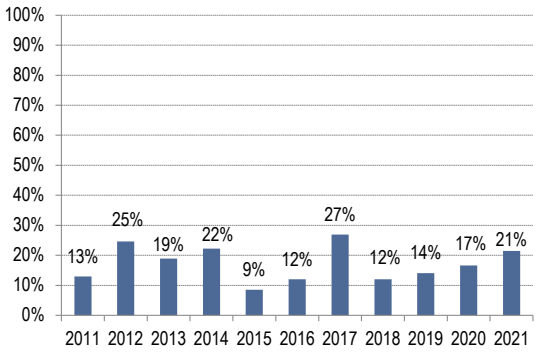
## Emblematic transactions vs. run-of-the-mill asset rotations

**M&A deals in European real estate sector ($bn)**




Sources: Bloomberg, Natixis

**Weight of 3 biggest M&A deals each year in the European real estate sector (%)**




Sources: Bloomberg, Natixis

By definition, **the real estate market is based on real assets and transactions are a naturally recurrent feature.** As highlighted by the left-hand chart above, over the last decade, M&A deals in the European real estate sector totalled **$1,160bn, averaging €105bn per year**, but rising to high levels in recent years due to the low interest rate environment, **averaging €138bn between 2017 and 2021** (excluding 2020 when the COVID-19 crisis struck).

**Leading European real estate investment companies have largely participated in the sector's consolidation over the past decade, with emblematic transactions involving listed companies**: Icade/Silic (2011), Klépierre/Corio (2014), Vonovia/Gagfah (2014), Unibail-Rodamco/Westfield (2017), Gecina/Eurosic (2017), Altarea/Primonial (2021) and of course, just recently, the merger last autumn of Vonovia and Deutsche Wohnen. Note also a trend for taking private listed companies, with the recent takeover offer by global investment fund Brookfield for alstria office.

Apart from these mergers and acquisitions, **external growth momentum in the real estate sector is mainly driven by the sales and leasebacks along with asset rotations aimed at optimising portfolios,** involving real estate investment companies as well as real estate and private equity funds. Again, as the real estate market is by definition based on real assets, it is by nature very fragmented, which implies that there is a plethora of transactions. The right-hand chart above shows that, **on average, the three biggest transactions each year have accounted for only 17% of all transactions over the last decade.**

In addition, faced with competition from e-commerce, **retail real estate investment companies have been streamlining portfolios for several years** by regularly disposing of mature assets in order to improve asset quality and focus on dominant shopping centres in their catchment areas. In a more stressed context in terms of risk appetite for brick-and-mortar retail, recent transactions have mostly taken the form of the sale of minority interests in ad-hoc joint ventures.

**For office real estate investment companies**, the dynamic arbitraging of mature assets is also a feature, enabling companies to finance their development pipeline and reinvest in higher yielding assets.

## A consolidation, but to what end?

A consolidation in the real estate sector presents a different interest depending on the segment in which a real estate investment company operates:

- **In the case of shopping centres, size matters in the operational management of these assets** as it strengthens the landlord's negotiating clout with retail chains. A real estate investment company such as Klépierre for example, which owns more than 100 shopping centres, is the largest landlord of Inditex in Europe. This confers a considerable advantage when renegotiating terms with the Spanish apparel retailer for leases coming up for renewal. Also, M&A deals may be the only way for a real estate investment company to lay its hands on trophy assets, which generally are never put up for sale in the investment market.

- **In the case of offices**, tenant rotation (hence organic growth) being lower than for shopping centres all other things being equal, the objective of a **consolidation will be rather more to achieve stronger growth in absolute terms.** Cost synergies are also more substantial.

- **In the case of residential, it is the possibility of creating platforms** (volume effect) **and establishing market leadership** that leads to a consolidation. Economies of scale and cost synergies are also significant.

## What awaits in the future?

**The real estate sector is by nature highly fragmented and is therefore in a constant state of consolidation.** Our view is that acquisitions will continue to be dynamic in the sector for the reasons mentioned above: to expand the portfolio and reach critical mass, to arbitrage mature assets and to look for investments offering a higher return...

As regards large M&A deals, **the industrial logic will, in our view, have to be strong to pull off these transactions**. First, most M&A transactions in the real estate sector are friendly in nature and negotiated on the basis of NAV parity. Right now, most of the large listed real estate investment companies are trading at large discounts to NAV. Consequently, **acquisition opportunities are not necessarily accretive and are therefore not optimal financially.**

Moreover, as in all sectors, **M&A deals in the real estate sector sometimes have setbacks. One will recall the financial markets' more than negative reaction to the announcement in 2017 of the acquisition of Westfield by Unibail-Rodamco**, raising questions over the interest of gaining exposure to US shopping centres when they were already being challenged by e-commerce. Putting to one side the COVID-19 crisis, the group is still struggling to recover from this acquisition and is in the midst of a heavy debt reduction programme, involving notably asset disposals. Similarly, **Klépierre's this time hostile attempt to take over British rival Hammerson in 2018 met with the same hostile reaction by financial markets initially**. However, when the French company did throw in the towel after two unsuccessful attempts, the share price reacted very positively.

Any consolidation needs to be underpinned by a solid industrial logic, our view being that this needs first to happen at domestic level. If a merger between Auchan and Carrefour were to take place (discussions at the beginning of 2022 have been put on hold), **it would be logical for there to be a merger of Carmila and New Immo Holding (formerly Ceetrus).** But other smaller retail real estate investment companies (Eurocommercial, Wereldhave) could be targets, though right now the onus is on retail real estate specialists to demonstrate that their business model can withstand the e-commerce boom.

**The most dynamic segment in recent years in terms of ushering in a consolidation is the German residential sector,** with a particularly active player in Vonovia, which has acquired several companies over the last eight years, including Gagfah, Conwert, Buwog, Victoria Park,

Hembla and, finally, Deutsche Wohnen in 2021. Vonovia now has a market capitalisation of €36bn. **We believe that a further consolidation of this market segment is possible,** driven by other players (LEG Immobilien, Grand City Properties, TAG Immobilien, Adler Real Estate) seeking to achieve critical mass and close the gap on their most formidable competitor. However, latest news as of February 23, 2021: **Vonovia announced that it holds 20.5% of Adler Group,** as a result of the enforcement of a collateral pledge of shares that had been **pledged to it against the €250 M loan that Vonovia had granted to Aggregate Holdings** (Adler Group's largest shareholder) on October 7. This transaction demonstrates **Vonovia's willingness to take advantage of market opportunities to continue to outpace its competitors.**

# 9. European banking sector and M&A

SAMY LAKHDARI

Banks / Insurance analyst

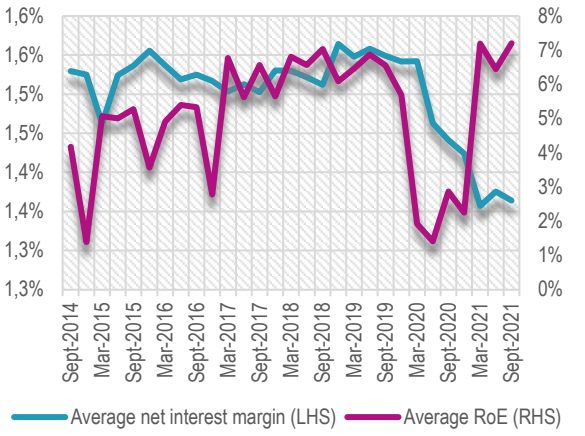
## A not particularly favourable structural environment for banks

Profitability is a structural problem for banks that has been highlighted for quite some years. Sluggish volume growth, negative interest rates and a flat yield curve have put pressure on the banks' profitability. The business model of European banks remains retail-oriented, with net interest income (NII) that accounts for the bulk of net banking income (NBI) (more than 50% on average) and has not declined over time, even for banks with a fee-based strategy.

The average RoE of European banks was 5.62% between September-14 and September-21 compared with an average cost of equity of around 10% over this period. **This means that, on average, European banks are destroying capital**. Over the same period, the average RoE of US banks[4] was close to 9%, or 3 points higher than in Europe.

We estimate that European banks have very little operational leeway to increase profitability at this stage.

**Change in return on equity (RoE) and net interest margin**




Sources: Natixis, EBA risk dashboard Q3-21

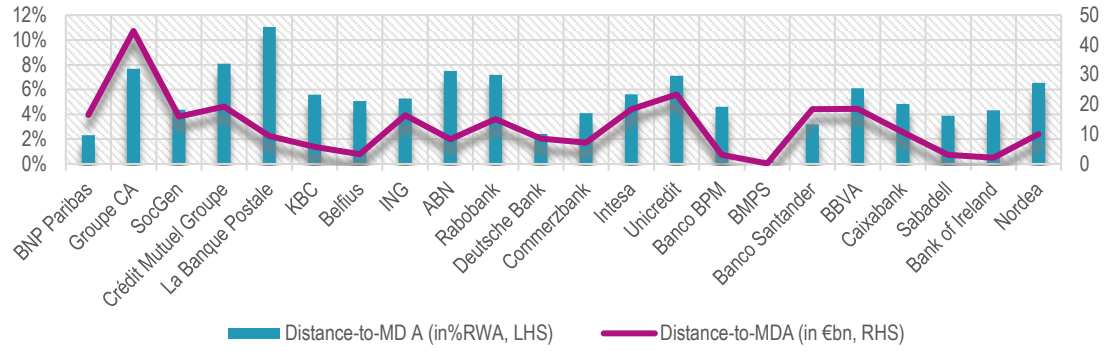
## M&A as a solution to the low profitability?

Our view is that M&A is a solution to the low profitability of the European banking sector. The European banking landscape is fragmented, with a multitude of entities in each country. M&A would allow the creation of fewer but larger groups with greater pricing power, all the while achieving economies of scale. By creating synergies, a consolidation of the sector can help banks address one of their most pressing challenges: how to reduce costs. It is also important to note that this consolidation can also take the form of targeted acquisitions. Some banks want to develop revenues not correlated to interest rates (private banking, asset management) and we observe that this sector consolidation is already under way: several banks are actively participating in this consolidation (ABN Amro/SG Private Banking NV, Banco Santander/Ebury Partner Ltd, SG/Quintet AM) in an industrial logic by business line, brought about increasingly through the development of strategic partnerships. **We therefore believe that business tie-ups between banks focused more particularly on certain activities will continue in 2022**.

Banks have built up capital reserves that have enabled them to achieve extremely comfortable distances to MDA of around €13bn on average at the end of September-21. This surplus could be reallocated to higher value-added resources without undermining the banks' credit profile.

[4] Bank of America, Citigroup, JPM and Wells Fargo

**Distance to MDA**




Sources: Natixis, Q3-21 company reports

Our view is that banks will use the excess capital in 2022 to reward shareholders in the form of dividends and share buybacks, but also to make targeted acquisitions.

**Bank valuations and generation of negative goodwill if there is an acquisition at a 30% premium**

| | Price/ Book | Market cap (local currency bn) | Book value (local currency bn) | Price 30% premium (local currency bn) | Badwill generated | Badwill in €bn | Badwill % of total assets |
|---|---|---|---|---|---|---|---|
| Banca Carige | 0,04 | 0,6 | 14 | 0,8 | 13 | 13 | 58,7% |
| BMPS | 0,17 | 1,0 | 6 | 1,3 | 5 | 5 | 3,3% |
| BANCO BPM | 0,42 | 5,4 | 13 | 7,0 | 6 | 6 | 2,9% |
| CREDIT SUISSE | 0,45 | 22,4 | 50 | 29,2 | 20 | 19 | 2,8% |
| SABADELL | 0,40 | 5,1 | 13 | 6,6 | 6 | 6 | 2,5% |
| COMMERZBANK | 0,42 | 10,7 | 25 | 13,9 | 12 | 12 | 2,3% |
| BPER BANCA | 0,46 | 3,0 | 7 | 3,9 | 3 | 3 | 1,9% |
| SOCIETE GENERALE | 0,45 | 28,4 | 64 | 36,9 | 27 | 27 | 1,8% |
| STAN CHART | 0,50 | 16,8 | 33 | 21,9 | 12 | 13 | 1,5% |
| DEUTSCHE BANK | 0,51 | 28,8 | 56 | 37,5 | 19 | 19 | 1,4% |
| UNICREDIT | 0,62 | 33,7 | 55 | 43,8 | 11 | 11 | 1,2% |
| BARCLAYS PLC | 0,57 | 32,9 | 57 | 42,7 | 15 | 17 | 1,1% |
| ABN AMRO | 0,61 | 12,2 | 20 | 15,9 | 4 | 4 | 1,0% |
| BANK OF IRELAND | 0,68 | 7,0 | 10 | 9,1 | 1 | 1 | 0,9% |
| RAIFFEISEN | 0,67 | 8,7 | 13 | 11,3 | 2 | 2 | 0,9% |
| CREDIT AGRICOLE | 0,62 | 42,0 | 68 | 54,6 | 13 | 13 | 0,6% |
| DANSKE BANK | 0,66 | 112,4 | 169 | 146,2 | 23 | 3 | 0,6% |
| SANTANDER | 0,69 | 58,6 | 85 | 76,2 | 9 | 9 | 0,6% |
| BNP PARIBAS | 0,73 | 77,7 | 107 | 101,0 | 6 | 6 | 0,2% |
| NATWEST | 0,74 | 27,5 | 37 | 35,8 | 1 | 2 | 0,2% |
| CAIXABANK | 0,76 | 26,5 | 35 | 34,4 | 1 | 1 | 0,1% |
| LLOYDS | 0,80 | 37,0 | 46 | 48,1 | -2 | -2 | -0,2% |
| HSBC | 0,84 | 111,3 | 133 | 144,7 | -12 | -14 | -0,4% |
| BBVA | 0,86 | 38,7 | 45 | 50,4 | -5 | -5 | -0,8% |
| INTESA | 0,90 | 54,2 | 60 | 70,4 | -10 | -10 | -0,9% |
| ING GROEP | 0,92 | 50,6 | 55 | 65,7 | -11 | -11 | -1,1% |
| SHB | 1,06 | 193,6 | 184 | 251,7 | -68 | -6 | -2,0% |
| ERSTE | 1,08 | 18,1 | 17 | 23,5 | -7 | -7 | -2,4% |
| UBS | 1,18 | 70,2 | 60 | 91,3 | -32 | -29 | -2,8% |
| SWEDBANK | 1,15 | 192,0 | 167 | 249,6 | -83 | -7 | -3,0% |
| NORDEA | 1,14 | 40,7 | 36 | 52,9 | -17 | -17 | -3,0% |
| BAWAG | 1,23 | 4,9 | 4 | 6,4 | -2 | -2 | -4,5% |
| SEB | 1,37 | 268,0 | 196 | 348,4 | -153 | -14 | -4,6% |
| KBC | 1,44 | 31,9 | 22 | 41,4 | -19 | -19 | -5,7% |
| DNB | 1,39 | 326,8 | 236 | 424,9 | -189 | -17 | -6,5% |

Sources: Natixis, Bloomberg as of 16/02/22

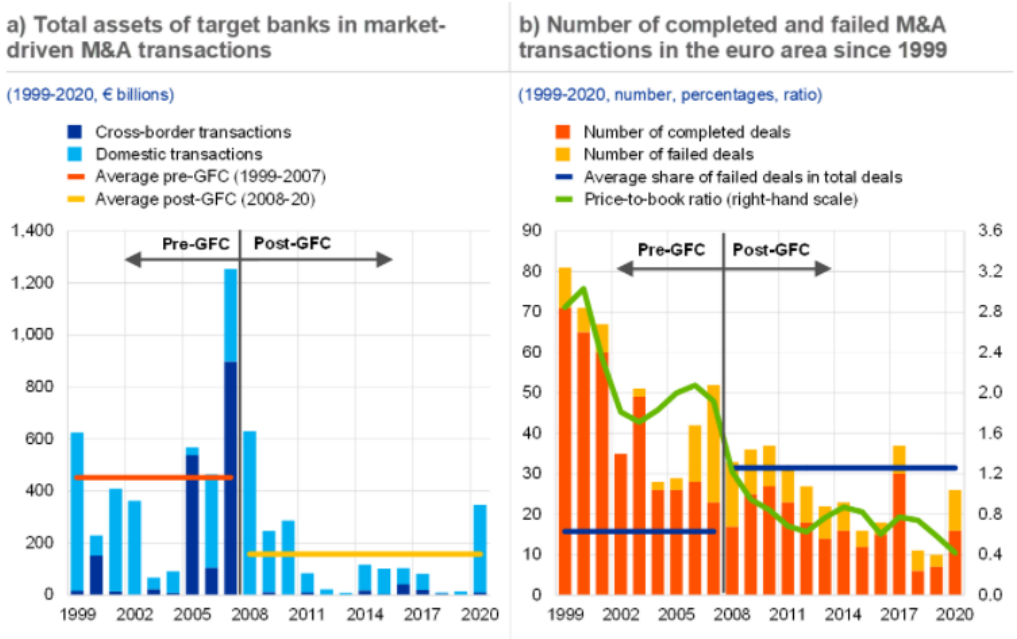
The table above shows that bank valuations are still low, as 75% of banks have a price-to-book ratio of less than 1 and 31% of them a ratio of less than 0.6. **Given the low valuation levels, there are therefore opportunities for mergers**.

One of the catalysts for M&A deals is the use of negative goodwill. In 2020[5], the ECB relaxed some regulatory constraints to encourage banks to merge. The regulator wanted the banking system to become more profitable, therefore more resilient and sustainable over the medium term. **One of the measures introduced was the authorisation to use negative goodwill generated by a merger** to, among other things, offset integration costs (restructuring charges) or to strengthen NPL provisions (but not for the payment of dividends by the new entity). In our sample, 60% of the banks would generate negative goodwill in case of an acquisition with a 30% premium. Peripheral banks appear to be the most attractive (Monte Paschi, Banco BPM, Sabadell).

## Outlook for 2022

As explained above, M&A can be a solution to the banks' low profitability, but **this does not mean that a sector consolidation would be the panacea**. For several years, M&A deals in the banking sector have been limited. The chart below shows that cross-border deals have been non-existent since the 2008 financial crisis and that failed deals have been increasing since 2008.

**Sector consolidation has made little headway since 2008**



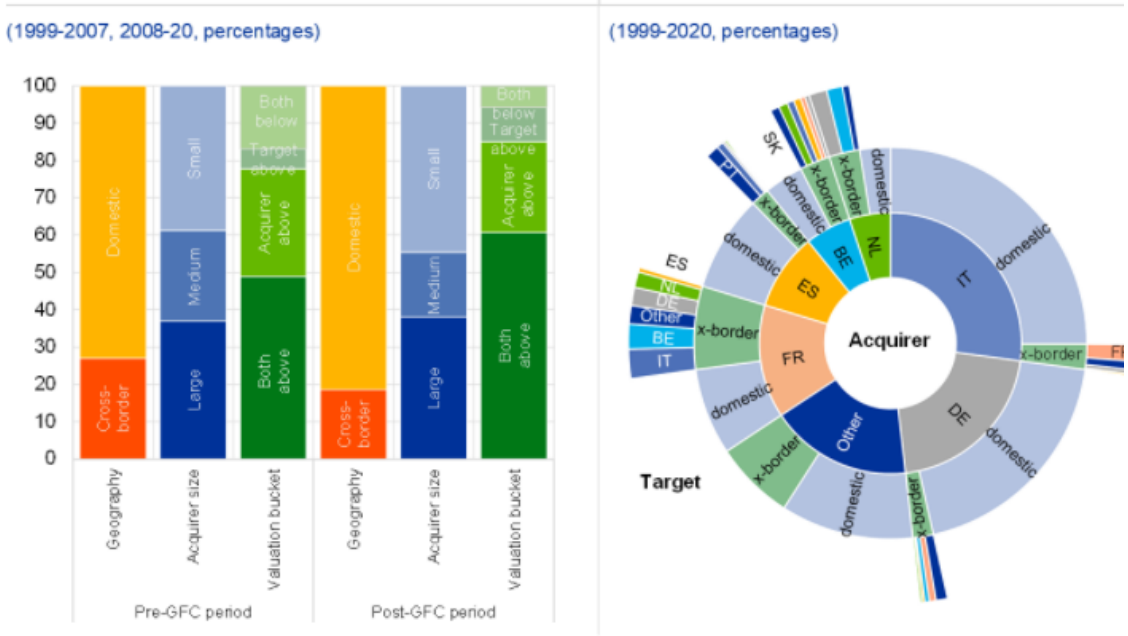

Sources: Natixis, Financial stability review November 2021

In its 2020 guide, the European regulator also emphasized (i) the possibility, for a limited period, to use internal models existing before the merger as well as (ii) the introduction of a Pillar 2 surcharge (for both P2R and P2G) that would be the weighted average of the two banks' Pillar 2, and (iii) the desire to stabilise SREP during the first year. All these elements allow banks to better approach M&A deals and provide banks with a more harmonised, transparent and advantageous framework.

[5] Guide on the supervisory approach

**Our view is that M&A activity will continue in 2022, but on a domestic scale and mainly in peripheral countries, as banks there are on attractive valuations**. Peripheral banks still need to clean up their balance sheets and further improvement in asset quality can be achieved through M&A.

**M&A driven by domestic deals**




Sources: Natixis, Financial stability review November 2021

**We do not expect any cross-border operations in 2022 as the European Banking Union is still a work in progress, with the European Deposit Insurance Scheme (EDIS) being the missing third pillar**. Deposit insurance in the Banking Union is currently organised at national level. The ECB has identified the introduction of EDIS as a key priority to enhance depositor protection, regardless of the location of banks, and to improve financial stability. **Our view is that the creation of a pan-European deposit protection scheme would facilitate cross-border consolidation**.

# 10. M&A in the insurance sector

BOUCHRA RHAJBAL

Banks / Insurance analyst

## Consolidation as a response to the challenges facing the sector

European insurers have been very active in M&A transactions in recent years. The multiple transactions reflect the dynamism of consolidation in the sector. There are various reasons behind this trend. First, insurers have been suffering from the low interest rate environment which continues to weigh on their profitability. Moreover, the introduction of the Solvency II Directive has exacerbated the necessity to reduce exposure to capital-intensive products. Regulatory constraints have prompted several players to come together. Similarly, the development of synergies and the hunt for new fast-growing markets explain these strategic repositioning efforts deployed by composite insurers.

### Pressure from low interest rates

In a context of low interest rates, it becomes tough for some certain life insurers to honor certain life insurance commitments provided in the past, guaranteeing high returns. The low interest rate environment has left life insurance players in Europe moving away from traditional products and shift their business and towards products that consume less capital. This led traditional life insurers to explore options to manage their legacy portfolios, with the objective of de-risking and freeing up capital. Indeed, some disposals helped to address capital optimization concerns. Some insurers have sold their life insurance business in regions where traditional products still dominate technical reserves. This is particularly the case for Aviva, which sold almost €6 billion in non-strategic activities. In Europe, Aviva mainly sold its life insurance activities, particularly in France to Groupe Aéma and in Italy to CNP. On a European scale, the appetite of private equity funds, consolidators of life insurance back-books continue to grow. In 2018, the investment fund Apollo (via Athora) acquired the life and asset management activities of Vivat, a Dutch insurer, for €2.5 billion.

### Divest to better reinvest

Refocusing on the most profitable activities and regions has become the strategy most adopted by the main insurance players in Europe. Whereas a few years ago, these insurance giants often sought to develop new activities in international markets. This process has effectively been reversed as priorities shift towards improving competitiveness in key markets and focusing on a few geographical areas. Following the acquisition of XL Group in 2018, AXA reduces its exposure to the Asian market by selling its activities in Singapore and Malaysia. The French insurer sold its activities in Central and Eastern Europe to Uniqa in 2020. For its part, Generali strengthened its position in its domestic market with the acquisition of Cattolica. The Italian insurer has just completed the purchase of La Médicale with the Crédit Agricole Group. At the same time, the Italian is constantly probing the Asian market to strengthen its presence in these rapidly developing niches.

### Diversification as another path to growth

Unlike life insurance, P&C insurance activities remain highly sought after for their attractive profitability and low sensitivity to financial markets and interest rates. Consolidation allows players to position themselves in multi-risk activities and diversify the range of P&C insurance they can offer. At the same time, reinsurance also seems to attract groups looking for expansion, particularly in markets in which they are not present. This is the case, for example, of the Covéa Group. Like AXA with its acquisition of XL Group, Covéa buys the reinsurer PartnerRe for €9 bn in 2020 after its failed takeover bid on SCOR. The mutualist group is already leader in P&C insurance in France, with limited growth potential. This transaction reflects the insurer's desire to diversify its business towards reinsurance by moving towards higher intensity risks and capturing new international market shares.

## Consolidation of the insurance sector is expected to continue in 2022

Insurers' consolidation should continue in 2022, driven by the desire to achieve synergies, to develop complementarity in a customer segment or product diversification in the same market, but also to ensure stable financial solidity in the long term, like the French insurance market experiencing M&A operations of its mutualists seeking to strengthen their position on the domestic market. It is clear that the pressure of low interest rates has been one of the reasons that pushed insurers to restructure their business mix. We believe that a rise in interest rates will make the sector more attractive, especially to investors looking for high returns. In addition, we also believe that the standardization of accounting standards in the sector planned with IFRS 17 will facilitate the evaluation of the performance of players, improve transparency on the profitability of products and thus promote the identification of opportunities.

# 11. M&A in Auto parts, Labs, Pharma, Food, and others

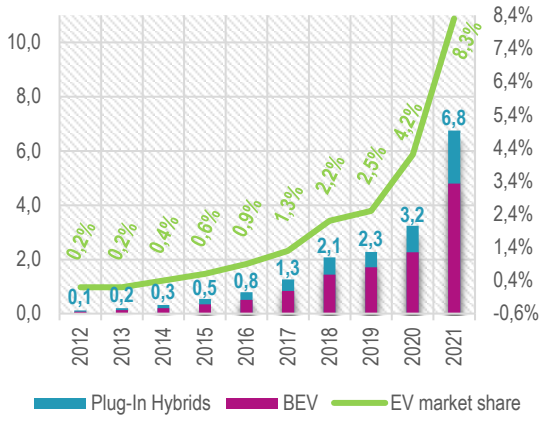
KIRILL TALAI

High Yield Analyst

## Auto equipment

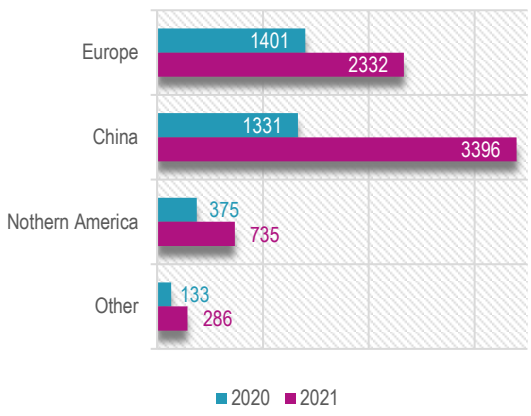
Although the main story of 2021 was a semiconductors shortage, **the main medium- to long-term trend in the industry is electrification, which is the largest transformation of the sector over its 100+ years history.** The share of EV sales in total light vehicle volume has been increasing exponentially even through a challenging 2021 – EV sales grew by 108% yoy vs. 4.6% for the total light vehicle market (total volume of cars sold stood at 76mn in 2021). Share of EV sales in Europe, the leading geography in the transition, increased to 17% from 10% a year ago, while China saw EV share growing to 13.3% from 5.5%. **We do believe that both OEMs and auto suppliers will try to diversify away from ICE exposure towards electronics.** That means more capex and M&A, deals such as Faurecia-Hella (we commented it here **Faurecia: More exposure to electronics is positive**) or Valeo buying the other 50% interest in the joint venture with Siemens (produces high voltage powertrain for electric vehicles) will be common. **There are some auto equipment players that are still very exposed to ICE technology** (e.g. Mahle), **and urgently need to pivot towards electronics.**

**EV volume (mn) and share in total global sales**




Source: EV-volumes, Natixis

**BEV+PHEV sales (ths) and % growth yoy**

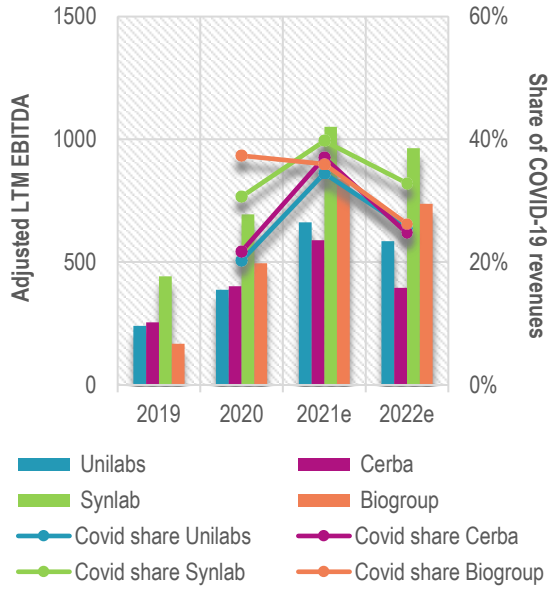



Source: EV-volumes, Natixis

## Medical Pathology

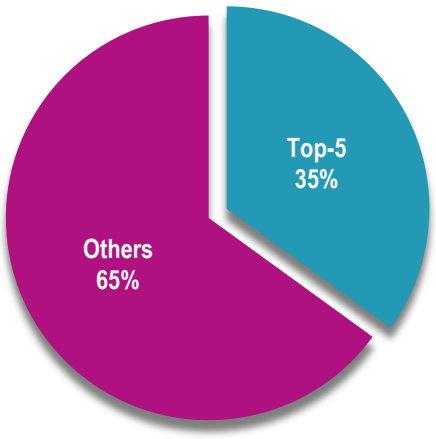
**Laboratory sector in Europe experienced a significant growth during pandemic with 35% top-line growth, coupled with triple digits growth of EBITDA** for all major companies in the sector (Synlab, Cerba, Unilabs and Biogroup), under the effect of PCR testing. Companies benefited from significant operating leverage that resulted in ample EBITDA and FCF generation. **As a result, the sector saw a new wave of LBOs and consolidation – Cerba enhancing its position in the Italian market via Lifebrain acquisition and making bolt-ons in France, while Biogroup was actively bidding for medium/big players and pursuing bolt-ons.** The sector is still fragmented at the European level with top-5 players accounting for 35% of the market. Also, **we believe that M&A is the way to create value in the industry** with broadly fixed costs and constant pressure on tariffs – operators integrate small labs into existing platform realizing significant synergies that well offset margin erosion due to cuts in tariffs. **Therefore, we expect the consolidation to continue over the next 5-10 years.**

**Adjusted LTM EBITDA & share of covid revenues**




Source: Companies, Natixis

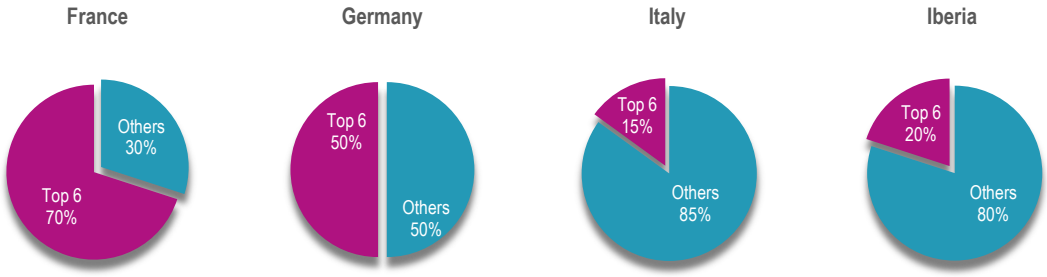
**Market share of companies in the EU Medical pathology**




Source: Companies, Natixis

Geographically, market fragmentation varies by country in Europe. **France and Germany are somewhat less fragmented than other European countries** as top-6 leading laboratories in France account for 70% of the market, while in Germany top-4 players have about 50% share of the accessible market. On the other hand, **Italian market is very fragmented** with top-3 players having about 15% market share. In Iberia (Portugal and Spain) top-2 operators (Synlab and Unilabs) have about 20% of the market.

**Market fragmentation in core European markets, 2021**




Source: Major consultancy firms, Natixis

## Global view on various sectors

### Chemicals

Strong balance sheets and healthy cash positions after a robust 2021 in an already mature industry with moderate organic growth raise the risk of a shift to more aggressive financial policies - M&A or shareholder distributions. PPG announced that it will spend elevated cash balances on external growth. In addition, Moody's expects Cabot, Avient and Axalta Coating Systems to use cash for M&A in 2022. Only a minority of chemicals producers have embraced more conservative financial policies, including establishing aggressive debt-reduction targets.

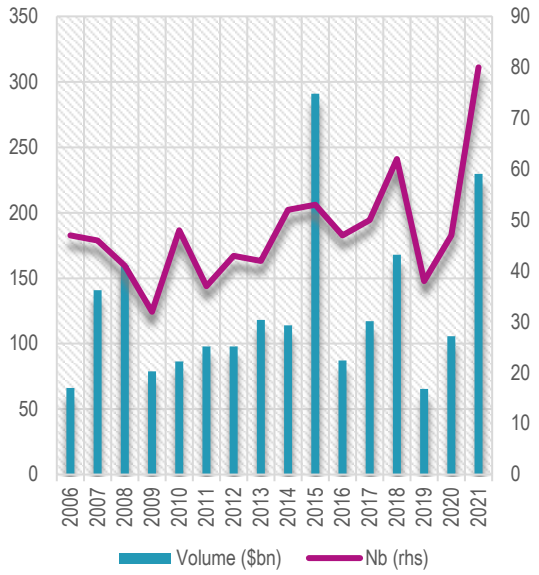
## Consumer products

**Packaged food** (Kellogg, Kraft Heinz). Current environment is relatively supportive for dynamic M&A activity in 2022 as costs are rising due to inflation and marketing expenses are recovering to support sales in the post covid world. Labour shortage forces companies to consolidate and invest in automation. Companies that exit covid ear with stronger balance sheets will fuel M&A or shareholder payouts.

**Packaged goods** (Unilever, P&G, Colgate, Nestlé). M&A activity will pick up as large strategic companies capitalize on changes in consumer trends. Unilever is shifting from bolt-ons to large transformational deals in higher growth categories such as health, beauty, and hygiene as wellness will remain an area of focus in the industry. The company approached GSK and Pfizer in January 2022 to buy their consumer health JV for £50bn.

After years of low to average M&A activity in the food industry (see chart below left), M&A took off in 2021 both in terms of number of deals as well as in volumes. Innovative niche brands are increasingly looked after by the big names in the food industry. Plant-based foods and products is one of those trends where M&A activity has been picking up recently: Danone acquired Follow Your Heart (specialized in vegan cheese) in February 2021, after having bought Whitewave Foods in 2017, while JBS paid more than $400mn for plant-based protein maker Vivera in May 2021. That trend is part of a more global shift towards ethical food by consumers. Sports drink (acquisition of BodyArmor by Coca Cola in November 2021 for $5.6bn, direct to consumer (Kraft Heinz recently bought 85% of Just Spices) and strengthening of e-commerce and supply chains are the other main trends of M&A interests currently.

**Volumes and number of M&A deals (EV >100 M$)**




Sources : Bloomberg, Natixis

**10 largest M&A deals in 2021**

| Announce Date | Target Name | Acquirer Name | Announced Total Value ($bn) | Payment Type |
|---|---|---|---|---|
| 20-Nov-21 | Constellation Brands | Monster Beverage | 55,1 | Undisclosed |
| 3-Aug-21 | Carrefour | Aumarche SAS | 37,4 | Cash and Stock |
| 12-Jan-21 | Carrefour | Alimentation Couche-Tard | 37,2 | Cash |
| 3-Jul-21 | WM Morrison Supermarkets | GIC,CPB,Fortress Investment Group | 13,9 | Cash |
| 20-Aug-21 | WM Morrison Supermarkets | Clayton Dubilier & Rice | 13,8 | Cash |
| 5-Jul-21 | WM Morrison Supermarkets | Apollo AM | 8,9 | Undisclosed |
| 30-Apr-21 | Bountiful | Nestle | 5,8 | Cash |
| 18-Mar-21 | Toennies Holding ApS | Potential Buyer | 5,7 | Undisclosed |
| 10-Nov-21 | ICA Gruppen | AMFTjanstepension,ica-handlarnas Forbund | 5,7 | Cash |
| 19-Feb-21 | BA Sports Nutrition | Coca-Cola | 5,6 | Cash |

Sources : Bloomberg, Natixis

**In Fashion Retail & Apparel** sector sustainability is the theme with new innovative brands emerging in this field creating a potential threat for existing players. Moody's expects that mid- to large size companies in the fashion industry might pursue M&A activity to gain both expertise and customer loyalty.

## Packaging

While volumes are improving, profitability margins will remain under pressure for most packaging companies because of input cost inflation and rising energy and transportation costs. Sustainability remains a key topic on the agenda of policymakers and will drive investments as

well as further consolidation. For example, SIG Combibloc announced acquisition of sustainable packaging company Scholle IPN for an enterprise value of €1.36bn, that will not only boost its offer in sustainable packaging but also increase SIG's presence in a more attractive American market.

### Pharmaceuticals

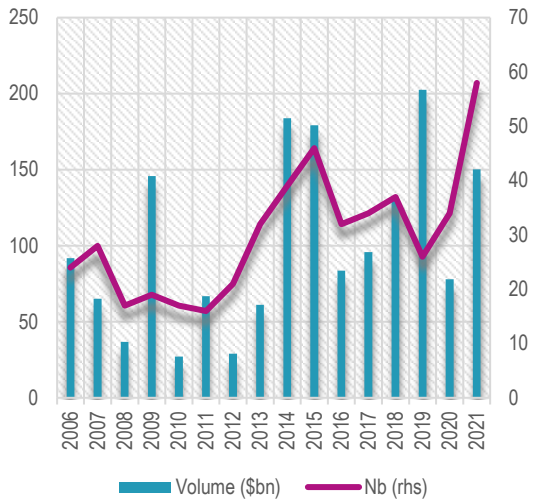
Acquisitions are anticipated to continue for largest US companies whose cash on hand provides a significant M&A funding source. Likely acquirers include Merck, Amgen, Johnson & Johnson and Bristol-Myers Squibb Company. Pfizer is also becoming a likely acquirer, given enhanced financial flexibility stemming from material COVID-19 vaccine sales. Also, Moody's expects all speculative grade pharmaceutical companies to generate positive FCF. However, despite their robust liquidity positions, companies are expected to require debt funding for their M&A activity.

In 2021, a record of 60 deals targeting a pharmaceutical company for more than $500mn were completed (see chart below). M&A volume in the sector also reached an all-time high in 2021 at over $150bn.

Oncology, the rare disease segment, and mRNA-based treatments were the preferred targets of the big pharmaceutical groups last year. Pfizer acquired Trillium Therapeutics (specializing in hematological cancers) for $2.3bn last August, while Bayer bought Vividion Therapeutics for $2bn at the same time. These two transactions follow numerous other acquisitions of companies in the field of oncology over the past two years (Amgen-Five Prime for $1.9m in March 2021, Servier - Argios oncology branch in December 2020, Illumina-Grail for $8bn, Gilead - Immunomedics for $21bn in September 2020), with a growing appetite of large groups for biotech (Forty Seven acquired by Gilead in March 2020, VelosBio acquired by Merck & Co in November 2020, NBE Therapeutics taken over by Boehringer Ingelheim in December 2020... ).

In the rare disease segment, the takeover of Viela Bio by Horizon Therapeutics for $3bn (February 2021) and that of Dicerna Pharmaceuticals (RNA interference therapies and rare diseases such as endocrine and coagulation disorders) for $3.3bn last November are the most emblematic.

**Volumes and number of M&A deals (EV >100 M$)**




Sources : Bloomberg, Natixis

**10 largest M&A deals in 2021**

| Announce Date | Target Name | Acquirer Name | Announced Total Value ($bn) | Payment Type |
|---|---|---|---|---|
| 4-Nov-21 | Roche (shares owed by Novartis) | Roche | 20,7 | Cash |
| 24-Feb-21 | PRA Health Sciences | ICON | 12,0 | Cash and Stock |
| 30-Sep-21 | Acceleron Pharma | Merck & Co | 11,0 | Cash |
| 6-Jan-21 | Alliance Healthcare/ Walgreens Boots | AmerisourceBergen | 6,5 | Cash and Stock |
| 3-Feb-21 | GW Pharmaceuticals | Jazz Pharmaceuticals | 6,3 | Cash and Stock |
| 9-Feb-21 | IVC Evidensia | Nestle, EQT Partners, Silver Lake | 4,2 | Cash |
| 18-Nov-21 | Dicerna Pharmaceuticals | Novo Nordisk | 2,5 | Cash |
| 3-Aug-21 | Translate Bio | Sanofi | 2,1 | Cash |
| 26-Feb-21 | MDLIVE | Cigna | 2,0 | Cash |
| 23-Aug-21 | Trillium Therapeutics | Pfizer | 1,9 | Cash |

Sources : Bloomberg, Natixis

Highly visible since the Covid-19 crisis and the development of vaccines by Moderna and Pfizer-BioNTech, messenger RNA is also the subject of much coveting by major groups. In particular, Sanofi acquired Translate Bio for $3.2bn last August, after buying Tidal Therapeutics in April 2021, given the promising nature of mRNA technology in the discovery of future anti-cancer vaccines in particular (colorectal, lung, cutaneous melanomas...) in the coming years.

# Disclaimer

This marketing communication and the information contained in this publication and any attachment thereto is exclusively intended for a client base consisting of professionals, eligible counterparties and qualified investors.
This document and any attachment thereto are strictly confidential and cannot be divulgated to a third party without the prior written consent of Natixis. If you are not the intended recipient of this document and/or the attachments, please delete them and immediately notify the sender.
Reference prices are based on closing prices (if mentioned in this document).
Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions. Neither Natixis, nor any of its affiliates, directors, employees, agents or advisers or any other person may be deemed liable to any person in relation to the distribution, possession or delivery of this document in, to or from any jurisdiction.
This document has been developed by our economists. It does not constitute a financial analysis and has not been developed in accordance with legal requirements designed to promote the independence of investment research. Accordingly, there are no prohibitions on dealing ahead of its dissemination.
This document and all attachments are communicated to each recipient for information purposes only and do not constitute a personalized investment recommendation. They are intended for general distribution and the products or services described herein do not take into account any specific investment objective, financial situation or particular need of any recipient. This document and any attachment thereto shall not be construed as an offer nor a solicitation for any purchase, sale or subscription.
Under no circumstances should this document be considered as an official confirmation of a transaction to any person or entity.
This document and any attachment thereto are based on public information and shall not be used nor considered as an undertaking from Natixis.
Natixis has neither verified nor carried out independent analysis of the information contained in this document. Accordingly, no representation, warranty or undertaking, either express or implied, is made to the recipients of this document as to or in relation to the relevance, accuracy or completeness of this document or as to the reasonableness of any assumption contained in this document. Information does not take into account specific tax rules or accounting methods applicable to counterparties, clients or potential clients of Natixis. Therefore, Natixis shall not be liable for differences, if any, between its own valuations and those valuations provided by third parties; as such differences may arise as a result of the application and implementation of alternative accounting methods, tax rules or valuation models. The statements, assumptions and opinions contained in this document may be changed or may be withdrawn by Natixis at any time without notice.
Prices and margins are indicative only and are subject to change at any time without notice depending on, inter alia, market conditions. Past performances and simulations of past performances are not a reliable indicator and therefore do not anticipate any future results. The information contained in this document may include results of analyses from a quantitative model, which represent potential future events that may or may not be realized and is not a complete analysis of every material fact representing any product. Information may be changed or may be withdrawn by Natixis at any time without notice.
The statements, assumptions and forecasts contained in this document reflect the judgment of its author(s), unless otherwise specified, and do not reflect the judgment of any other person or of Natixis. The information contained in this document should not be assumed to have been updated at any time subsequent to the date shown on the first page of this document and the delivery of this document does not constitute a representation by any person that such information will be updated at any time after the date of this document.
Natixis shall not be liable for any financial loss or any decision taken on the basis of the information disclosed in this presentation and Natixis does not provide any advice, including in case of investment services. In any event, you should request for any internal and/or external advice that you consider necessary or desirable to obtain, including from any financial, legal, tax or accounting adviser, or any other specialist, in order to verify in particular that the transaction (as the case may be) described in this document complies with your objectives and constraints and to obtain an independent valuation of the transaction, its risk factors and rewards.
All of the views expressed in this report accurately reflect the author's personal views regarding any and all of the subject securities or issuers. No part of author compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this report. The personal views of authors may differ from one another. Natixis, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein.
[Natixis may have Conflicts of Interest : Natixis may from time to time, as principal or agent, be involved in a wide range of activities globally, have positions in, or may buy or sell, or act as market maker in any securities, currencies, financial instruments or other assets which are the underlying of the instruments to which this presentation relates. Natixis activities related to those instruments may have an impact on the price of the relevant underlying asset and may give rise to conflicting interests or duties. Natixis may provide services to any member of the same group as the recipient of this presentation on or any other entity or person (a Third Party), engage in any transaction (on its own account or otherwise) with the recipient of the presentation or a Third Party, or act in relation to any matter for itself or any Third Party, notwithstanding that such services, transactions or actions may be adverse to the recipient of the information or any member of its group, and Natixis may retain for its own benefit any related remuneration or profit. In addition, Natixis may, whether by virtue of the types of relationships described in this paragraph or otherwise, from time to time be in possession of information in relation to a particular instrument that is or may be material in the context of that instrument and that may or may not be publicly available or known to you. Providing to you an indicative price quotation or other information with respect to any such instrument does not create any obligation on the part of Natixis to disclose to you any such information (whether or not confidential).]
The stocks/companies mentioned might be subject to specific disclaimers. Please click on the following link to consult them: https://www.research.natixis.com/GlobalResearchWeb/main/globalresearch/DisclaimersSpecifiques
Natixis is supervised by the European Central bank (ECB).
Natixis is authorized in France by the Autorité de Contrôle Prudentiel et de Régulation (ACPR) as a Bank -Investment Services Provider and subject to its supervision.
Natixis is regulated by the Autorité des Marchés Financiers in respect of its investment services activities.
Natixis is authorized by the ACPR in France and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the United Kingdom. Details on the extent of regulation by the FCA and the Prudential Regulation Authority are available from Natixis' branch in London upon request.
In Germany, NATIXIS is authorized by the ACPR as a bank – investment services provider and is subject to its supervision. NATIXIS Zweigniederlassung Deutschland is subject to a limited form of regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) with regards to the conduct of its business in Germany under the right of establishment there. The transfer / distribution of this document in Germany is performed by / under the responsibility of NATIXIS Zweigniederlassung Deutschland.
Natixis is authorized by the ACPR and regulated by Bank of Spain and the CNMV (Comisión Nacional del Mercado de Valores) for the conduct of its business under the right of establishment in Spain.
Natixis is authorized by the ACPR and regulated by Bank of Italy and the CONSOB (Commissione Nazionale per le Società e la Borsa) for the conduct of its business under the right of establishment in Italy.
Natixis, a foreign bank and broker-dealer, makes this report available solely for distribution in the United States to major U.S. institutional investors as defined in Rule 15a-6 under the U.S. securities Exchange Act of 1934. This document shall not be distributed to any other persons in the United States. All major U.S. institutional investors receiving this document shall not distribute the original nor a copy thereof to any other person in the United States. Natixis Securities Americas LLC, a U.S. registered broker-dealer and member of FINRA, is a subsidiary of Natixis. Natixis Securities Americas LLC did not participate in the preparation of this report and as such assumes no responsibility for its content. This report has been prepared and reviewed by authors employed by Natixis, who are not associated persons of Natixis Securities Americas LLC and are not registered or qualified as research analysts with FINRA, and are not subject to the rules of the FINRA. In order to receive any additional information about or to effect a transaction in any security or financial instrument mentioned herein, please contact your usual registered representative at Natixis Securities Americas LLC, by email or by mail at 1251 Avenue of the Americas, New York, NY 10020. The stocks mentioned might be subject to specific disclaimers. Please click on the following link to consult them: http://research.intranet/GlobalResearchWeb/main/globalresearch/DisclaimersSpecifiques
In Canada, Natixis operates through Natixis Canada Branch which is supervised and regulated by the Office of the Superintendent of Financial Institutions (OSFI) as a Foreign Bank Branch (Schedule 3– Lending only) . Natixis Securities Americas LLC is not a registered broker-dealer in any Canadian province but operates under the International Dealer Exemption in each province. NATIXIS is not a registered broker-dealer in any Canadian province and operates under the International Dealer Exemption in Quebec and Ontario. Any securities transaction or other offer, sale, or solicitation will be structured to be in compliance with such exemption.
Natixis Japan Securities Co., Ltd. (NJS) is a Financial Instruments Business Operator (Director General of Kanto Local Finance Bureau (Kinsho) No. 2527 and is supervised by the Financial Services Agency. NJS is a member of the Japan Securities Dealers Association and Type II Financial Instruments Firms Association. This document is intended solely for distribution to Professional Investors as defined in Article 2.31 of the Financial Instruments and Exchange Act. All of the views expressed in this report accurately reflect the author's personal views regarding any and all of the subject securities or issuers. No part of author compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I(WE), AUTHOR(S), WHO WROTE THIS REPORT HEREBY CERTIFY THAT THE VIEWS EXPRESSED IN THIS REPORT ACCURATELY REFLECT OUR(MY) PERSONAL VIEWS ABOUT THE SUBJECT COMPANY OR COMPANIES AND ITS OR THEIR SECURITIES, AND THAT NO PART OF OUR COMPENSATION WAS, IS OR WILL BE, DIRECTLY OR INDIRECTLY, RELATED TO THE SPECIFIC RECOMMENDATIONS OR VIEWS EXPRESSED IN THIS REPORT. The personal views of authors may differ from one another. Natixis, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein.
In Hong Kong, this document is for distribution to professional investors only (as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made under that Ordinance).
Natixis Singapore branch is regulated by the Monetary Authority of Singapore. This document is intended solely for distribution to Institutional Investors, Accredited Investors and Expert Investors as defined in Section 4A of the Securities and Futures Act of Singapore.
In Mainland China, Natixis Shanghai branch and Natixis Beijing branch are regulated in the PRC by China Banking and Insurance Regulatory Commission, the People's Bank of China, and the State Administration of Foreign Exchange for the engagement of banking business. This document is intended solely for distribution to Professional Investors who are authorized to engage in the purchase of Product of the type being offered or sold. PRC professional investors are responsible for obtaining all relevant approvals/licenses, verification and/or registrations themselves from relevant governmental authorities (including but not limited to China Banking and Insurance Regulatory Commission, the People's Bank of China, State Administration of Foreign Exchange and/or China Securities Regulatory Commission), and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.
In Taiwan, Natixis Taipei Branch is regulated by the Taiwan Financial Supervisory Commission. This document is intended solely for distribution to professional investors in Taiwan for reference only.
In South Korea, this research material has been provided to you without charge for your convenience only. All information contained in this material is factual information and does not reflect any opinion or judgment by Natixis. The information contained in this research material should not be construed as offer, marketing, solicitation or investment advice with respect to any financial investment products mentioned in this material.
In Australia, Natixis has a wholly owned subsidiary, Natixis Australia Pty Limited ("NAPL"). NAPL is registered with the Australian Securities & Investments Commission and holds an Australian Financial Services License (No. 317114) which enables NAPL to conduct its financial services business in Australia with "wholesale" clients. Details of the AFSL are available upon request.
Natixis S.A. is not an Authorised Deposit-Taking Institution under the Australian Banking Act 1959, nor is it regulated by the Australian Prudential Regulation Authority. Any references made to banking in the document refer to Natixis activities outside of Australia.
Natixis is authorized by the ACPR and regulated by the Dubai Financial Services Authority (DFSA) for the conduct of its business in and from the Dubai International Financial Centre (DIFC). The document is being made available to the recipient with the understanding that it meets the DFSA definition of a Professional Client; the recipient is otherwise required to inform Natixis if this is not the case and return the document. The recipient also acknowledges and understands that neither the document nor its contents have been approved, licensed by or registered with any regulatory body or governmental agency in the GCC or Lebanon.
In Oman, Natixis neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, Natixis is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority.
This document has been prepared by Natixis
The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009).
Natixis does not solicit business in Oman and the only circumstances in which Natixis sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from Natixis and by receiving this document, the person or entity to whom it has been dispatched by Natixis understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman.
Natixis does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman.
Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.
In Qatar, The information contained in this document has been compiled in good faith with all reasonable care and attention and, to the best of our knowledge and belief, is correct at the time of publication and does not omit any data available to us that is material to the correctness of such information. Any opinions expressed herein have been formed in good faith on the relevant facts available at the time of its formation