



Global M&A Report 2023

When M&A is the answer: In an uncertain market, bold moves will define the future



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State of the Market

M&A Midyear Report 2023.

The Strategic M&A market is in limbo as both buyers and sellers navigate this weird economy.

Source: Bain & Company – Brief 2023 M&A Overview

At a Glance

- Overall global M&A value is down 44% in the first five months of 2023.
- Macroeconomic and interest rate uncertainty continues to complicate dealmaking and foster caution among sellers and buyers alike.
- Valuations for strategic technology deals declined dramatically, but valuations have held steady or ticked up in most other sectors.
- Dealmaking is likely to resume faster than many have anticipated and favor the best-prepared buyers and sellers..

We're now 12 months into a lethargic mergers-and-acquisitions market, with deal values and volume well off postpandemic highs. Consider the mixed signals dealmakers face. Deal valuations have fallen dramatically, but hover above a typical downturn trough. Central banks continue to raise interest rates, yet an inverted bond market suggests a coming reversal. Layoffs have accelerated, but the hiring market remains resilient. Inflation has slowed, but persists. The much-anticipated recession hasn't officially arrived, yet executives are deploying downturn playbooks with a renewed focus on cost discipline.

It's an economic climate that's weird by any standard, so we conducted a series of extensive interviews with our clients to understand how it has changed their M&A mindset. We repeatedly heard five messages.



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- 1. Buyers still want to get deals done.** They acknowledge that times of turbulence create great opportunities to improve strategic position. And yet, almost every dealmaker has told us that they struggle to get deals over the finish line.
- 2. Sellers believe in their businesses.** Many uttered variants of the sentiment that nobody wants to be the chump that sold at the market bottom. Private equity exits have dried up, and corporate divestitures have slowed down.
- 3. Conditions vary widely by industry.** Scale deals, particularly in highly regulated industries like telecom, are a thing again. Yet in other industries (we’re looking at you, consumer products), deal teams can’t even agree on the base performance of the last three years.
- 4. Around the world, government efforts to tamp down M&A through regulation and competitive reviews are working.** While the Federal Trade Commission in the US may be losing in the courtroom, there’s a distinct chill in the boardrooms where deal ideas are discussed.
- 5. No one thinks the era of M&A has come to an end.** This is just a pause. Teams are doing the much-needed work in M&A strategy, sector screening, and due diligence to prepare to act quickly when the market opens up again.

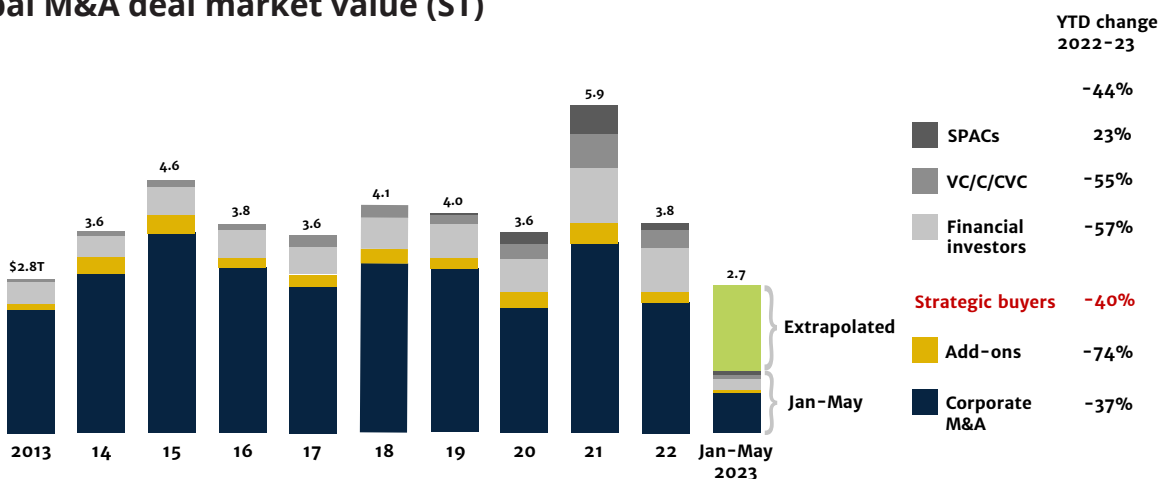
Buyers and sellers haven’t yet aligned

A few charts tell the story of M&A in the first half of 2023.

Overall global M&A value is down 44% in the first five months of 2023 (see Figure 1). The year-on-year comparison is particularly stark due to the heady start of 2022. Leveraged deal value has fallen the most, by 54% including private equity, PE add-ons, and venture capital. These acquirers face a narrower path to value creation amid higher-cost leverage and more limited access to financing.

Within the strategic market, PE-backed add-ons fell twice as fast as corporate M&A, in part because corporate acquirers retain access to lower-cost capital.

Figure 1
Global M&A market value is down 44% year to date
Global M&A deal market value (ST)



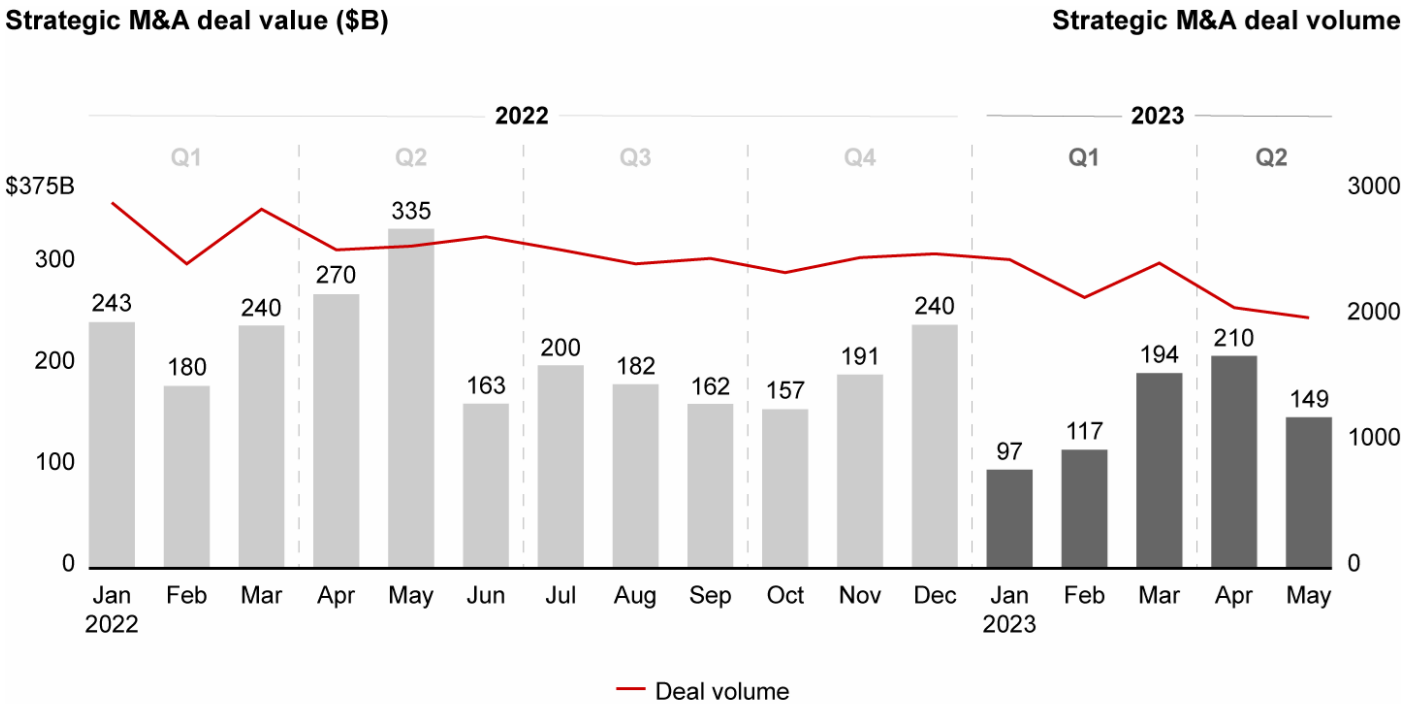
Notes: Data as of announcement date; strategic M&A includes corporate M&A deals (which includes PE exits) and add-ons, and excludes VC, PE, and SPAC-sponsored deals
 Source: Dealogic as of June 13, 2023



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More than a year after the US Federal Reserve Bank’s most aggressive rate hike since 1994, strategic M&A remains stalled (**see Figure 2**). Deal value in the first quarter of 2023 represented the lowest first quarter in 20 years. Volumes are also lower, but slightly more resilient (down 16% year-over-year through May), revealing a market shift to smaller deals.

Figure 2

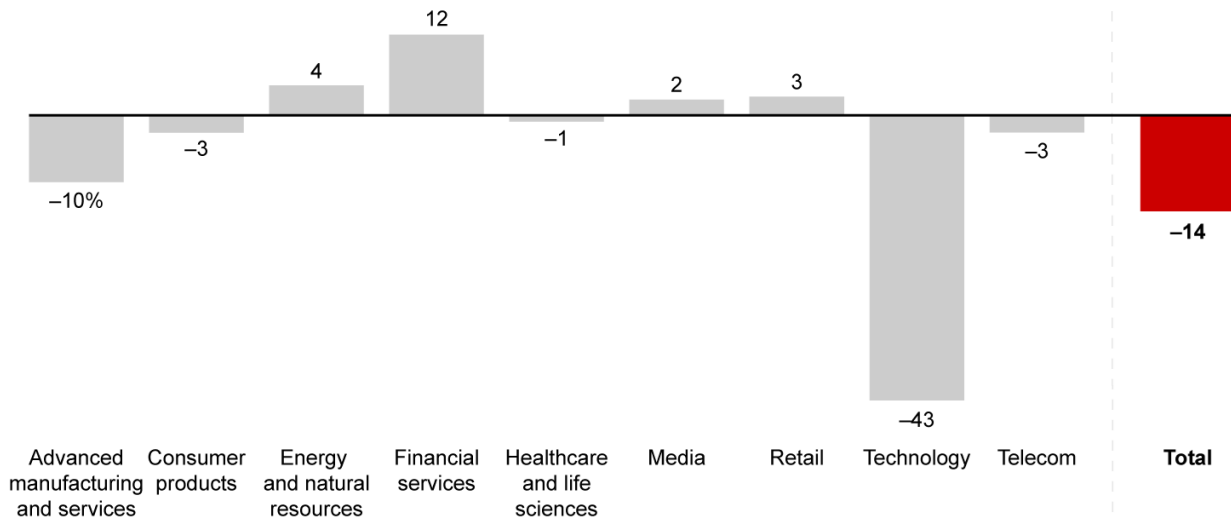


Note: Strategic M&A includes corporate M&A deals (which includes PE exits) and add-ons, and excludes VC, PE, and SPAC-sponsored deals
 Source: Dealogic, as of June 13, 2023

The first half of 2023 has been characterized by an inverted yield curve, where shorter-term debt instruments have higher yields than longer-term ones. This unsustainable quirk in bond market pricing means markets aren’t yet sure when and where interest rates will stabilize. Such uncertainty continues to complicate dealmaking and foster caution among sellers and buyers alike.

Deal multiples have reacted unevenly (**see Figure 3**). While valuations have dropped dramatically in technology, in most other sectors, valuations have held steady or ticked up.



Figure 3.**Global M&A Report 2023****Percentage change in median EV/EBITDA for strategic deals, by industry**

Notes: Data as of announcement date; strategic M&A includes corporate M&A deals (which includes PE exits) and add-ons, and excludes VC, PE, and SPAC-sponsored deals
 Source: Dealogic as of June 13, 2023

What should dealmakers be doing now?

In a nutshell, do your homework, and be ready to act.

We expect that the recovery will not be everywhere, all at once. Instead, certain industries will have the chance to carpe diem. We're already seeing that commodity-based industries, pharmaceuticals, and banking are initiating a wave of scale-oriented deals to seize new opportunities, as well as fight off existential threats. A word of warning here. Past cycles haven't been kind to some of these deals. In fact, some of the worst deals in history were done under these conditions. Think about Bank of America's failure to pressure test the underlying health of Countrywide Financial in 2008 (**see figure 6**).

In other industries, it may take some time for the valuation dance to play out. In some, the twin aftershocks of the pandemic and the inflation spike have made it difficult to ascertain what the base business performance actually is. However, this issue will be resolved and those that are best prepared will be favored as the market heats up again. Another segment of the market will return along with interest rate certainty. As we've mentioned, industries with cash flows tied up in "terminal value" have been particularly hard hit by the past year's interest rate rise. As volatility ebbs, pricing certainty will return. Of course, if the inverted yield curve is to be believed, a long-term tailwind will support growth-oriented investing.

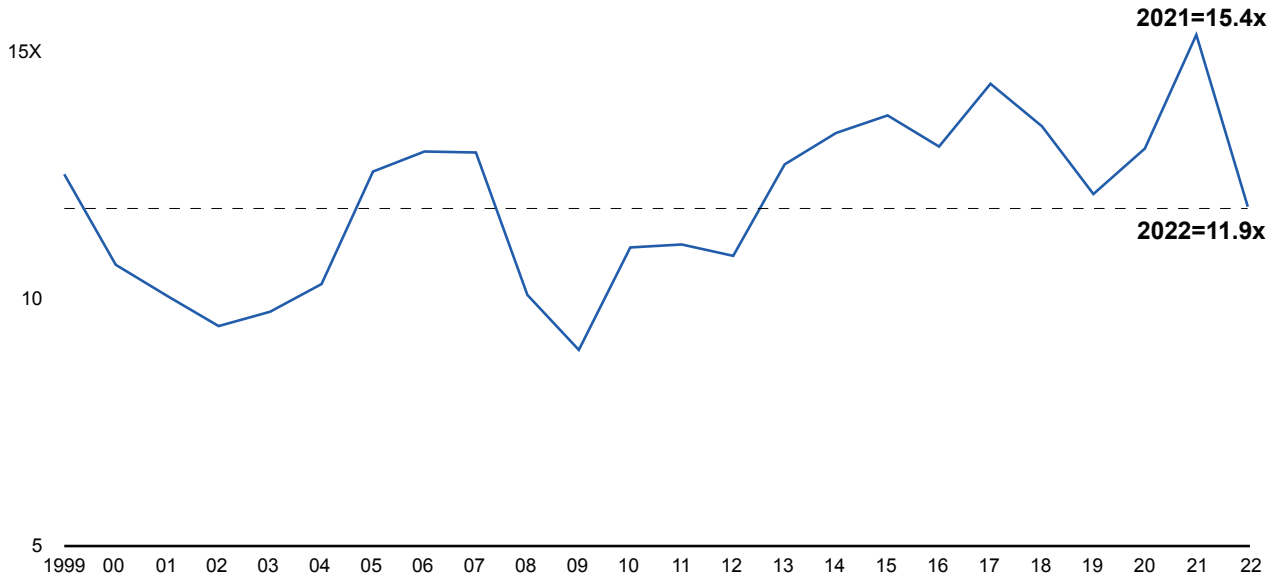
Finally, we do expect to see more assets coming to market. PE exits are bound to pick up as portfolios age. That process can be delayed, but cannot be postponed forever. Likewise, M&A teams are working to prepare businesses that should be divested from corporate portfolios. In almost all cases, the strategic imperatives that suggest a change in parenting advantage haven't abated during this pause.



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Figure 4: Strategic M&A multiples fell to nearly 12 times from 2021's historic high of 15.4 times

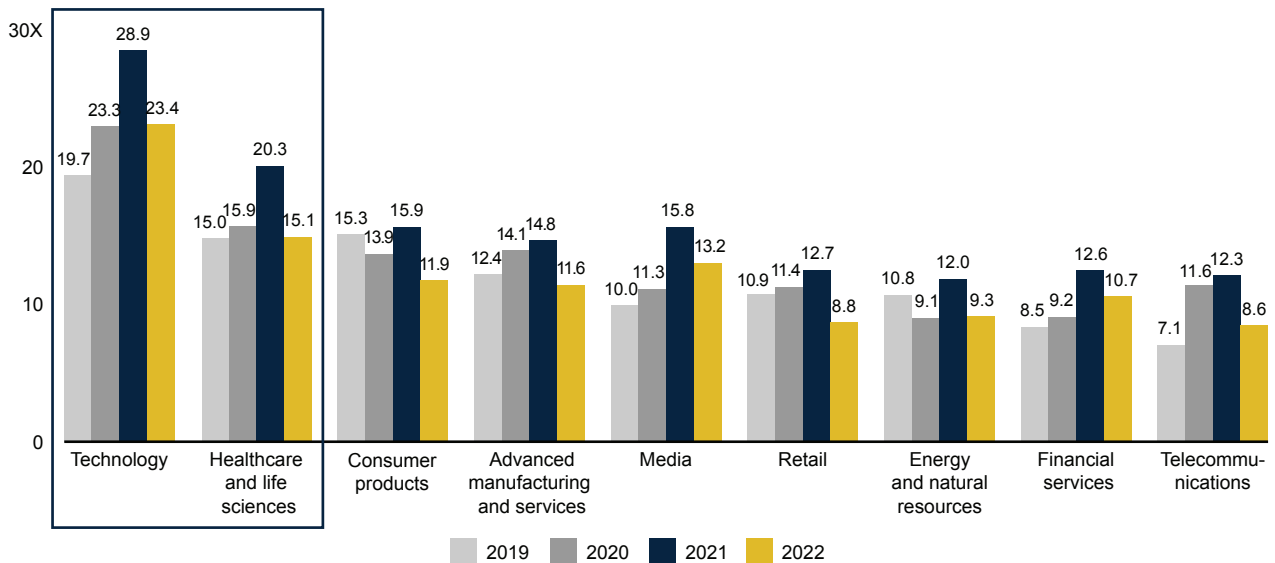
Median enterprise value to EBITDA multiples



Notes: Median deal multiples for announced strategic deals in which valuation data was available; strategic deals include corporate M&A and PE portfolio add-ons
Source: Dealogic

Figure 5: Technology and healthcare and life sciences multiples fell by more than five turns.

Median enterprise value to EBITDA multiples per industry (strategic deals)



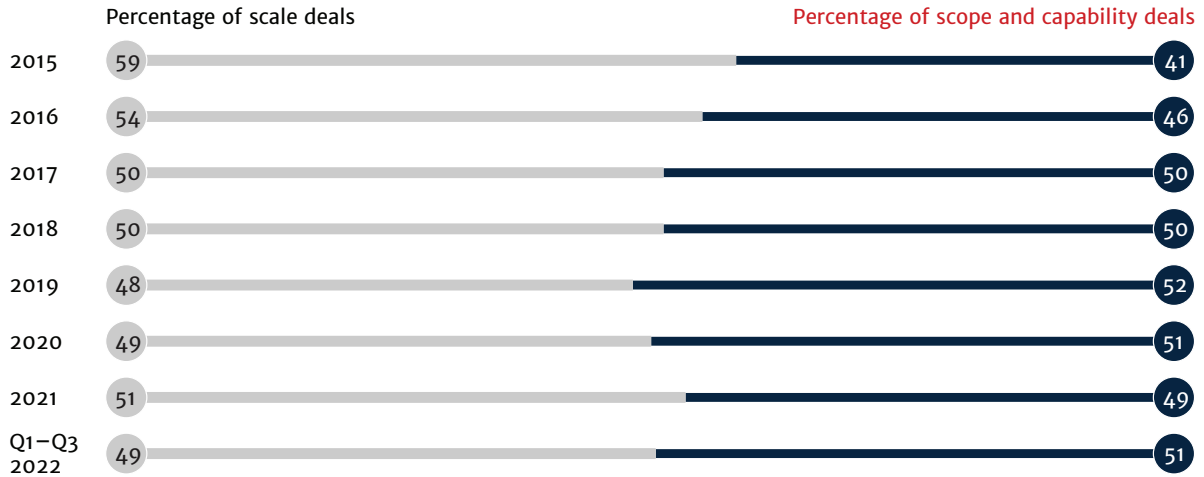
Notes: Median deal multiples for announced strategic deals in which valuation data was available; strategic deals include corporate M&A and PE portfolio add-ons
Source: Dealogic



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Figure 6: Deals continue to be split evenly between scope and scale

250 largest strategic deals with deal value greater than \$1 billion



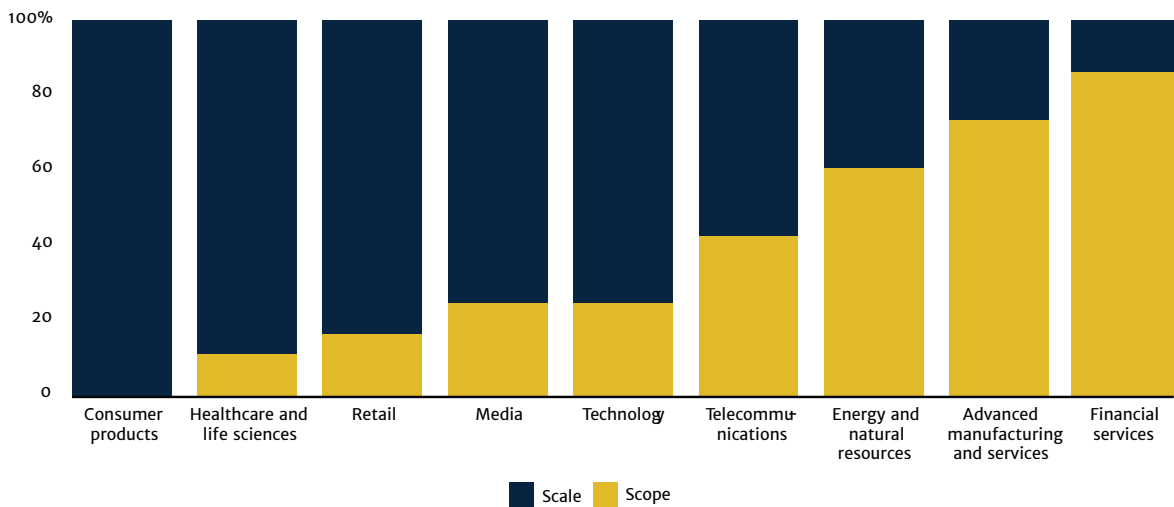
Notes: If more than 250 deals had a value greater than \$1 billion in a given year, then only the top 250 deals were included; if fewer than 250 deals, only those greater than \$1 billion were included; the top 250 announced strategic deals of the year from 2015 to 2021 exclude nonstrategic deals such as asset or property acquisitions, financial investment deals, government acquisitions, internal reorganizations, or minority stake acquisitions; deals classified by rationale using a proprietary classification framework, as per stated strategic rationale at the time of announcement.

Source: Bain M&A database 2022 (N=2,845 companies)

Figure 7: Consumer products and healthcare and life sciences primarily saw scope deals, while financial services and advanced manufacturing were driven by scale deals.

Percentage of scale and scope deals greater than \$1 billion split by industry

Figure 7



Note: Based on the 197 deals valued at greater than \$1 billion as of September 30, 2022

Source: Bain M&A database 2022 (N=2,845 companies)





State of the Market

Looking Ahead to M&A in 2023

In an uncertain market, executives are making the bold moves that will define the future.

By David Harding, Kai Grass, Andrew Grosshans, and Suzanne Kumar.

At a Glance

We've identified five M&A themes to watch for in the year ahead:

- a. Cash-rich companies making strategic, bold moves.
- b. A continued prevalence of small to midsize deals.
- c. A balance of scale and scope deals.
- d. Valuations coming under further pressure.
- e. Companies reshaping portfolios through separations and divestitures.

In 2023, savvy executives will keep their feet on their M&A accelerators, even as competitors slam on the brakes in the face of turbulence.

Deal values and deal multiples decline as sellers hold back and acquirers lose conviction. As uncertainty impacts both the base business of acquirers and targets, it becomes harder to make decisions about deals.

Yet history tells us that winners don't pause M&A during downturns, rather they take advantage of opportunities to reshape their industries. Companies that move quickly when others hesitate are rewarded.

In the long run, companies that executed at least one deal per year during the economic downturn earned 120 basis points more in total shareholder returns than companies that were inactive in M&A.



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We have identified five themes to keep an eye on in 2023: cash-rich companies making strategic, bold moves; continued prevalence of small to midsize deals; a balance of scale and scope deals; further pressure on valuations; and portfolio reshaping through separation and divestitures.

a) Cash-rich companies making strategic, bold moves

In the current cycle, too, companies with a strong market position, cash on hand, and debt capacity will have the upper hand to execute transactions. These companies should be confirming their strategic M&A roadmaps, revisiting deal models, and laying the groundwork to move fast on desirable targets (large and small). Nearly every sector has a few cash-rich market leaders. Energy, industrials, and technology stand out as sectors in which the top players have solid balance sheets to make bold moves. Sectors with struggling assets may find more tolerance among regulators for large consolidation deals.

b) Continued prevalence of small to midsize deals.

Thousands of deals valued at less than \$500 million make up the bulk of M&A activity each year. We expect this to continue. Companies look to M&A to address strategic needs to expand markets, build new engines for growth, and fill capability gaps. Smaller to midsize deals will be easier than megadeals to complete given relatively lower risk, less reliance on financing, and less regulatory scrutiny. Dealmakers in many industries may shy away from pursuing deals that could wind up in regulatory crosshairs as extended pre-close periods incur many direct and indirect costs.

c) A balance of scale and scope deals

A high interest rate environment and weak economy put a premium on assets with cash flow and a line of sight to rapid synergies, supporting a near-term shift to scale deals.

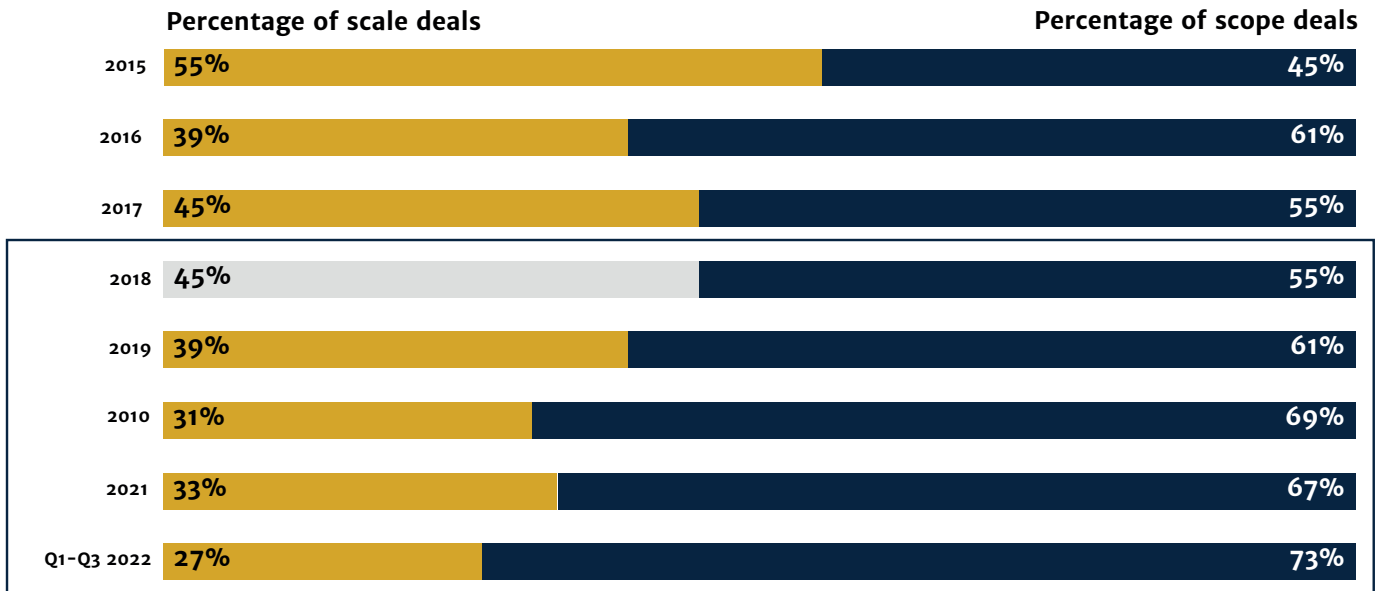
At the same time, our M&A Practitioners' 2023 Outlook Survey indicates that appetite will continue for deals to build and grow new businesses.



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Figure 8: Over the past five years, expanding scope has been the major impetus for strategic M&A deals in the industry

Strategic deals with greater than \$100 million in deal value



Note: Deals classified by rationale using a proprietary classification framework, as per stated strategic rationale at the time of deal announcement Sources: Dealogic; Bain analysis.

In areas with high technology uncertainty and where heavy investments are required, such as autonomous driving, companies are finding that participating in CVC can help them secure early access to technology and accelerate development.

This is a decisive time, and companies that make the right decisions now can massively benefit over the long haul. To succeed in this new M&A game, automotive and mobility players must reinforce their M&A capabilities, adjust structures and processes, and build up resources and capabilities for CVC. Five important areas will help ensure M&A success:

- Embed M&A in corporate strategy, and take a thorough future-back view of your portfolio.
- Broaden your screening, including early detection systems and investment opportunities via a venture capital approach.
- Expand your M&A toolkit, tailoring the tools and approaches you use to the situation, including strategic divestments, spin-offs to drive valuation, and alternative partnering options.
- Improve your commercial diligence skill set and integration capabilities, particularly for evaluating adjacency moves and partnerships.
- Capture the full potential, which, in some cases, will be heavily focused on managing down costs and capital employed; in other situations, it will mean taking on the marketing of acquired software or hardware from the smaller company, preserving the core of an acquired business.



d) Further pressure on valuations

Uncertainty regarding cost and availability of capital, as well as the overall macroeconomic outlook, will likely cause dealmakers to be more conservative in valuations. History suggests that valuations typically find a floor at around 9 times to 10 times enterprise value to EBITDA, another 2 to 3 turns lower than the 2022 median. Yet strategic buyers hoping for a steal should be prepared for increased competition from financial buyers as the year unfolds. Private equity firms are resilient in fragile economic environments and will continue to have record amounts of dry powder, an appetite for deals, and a willingness to pay for desired assets.

e) Portfolio reshaping through separation and divestitures

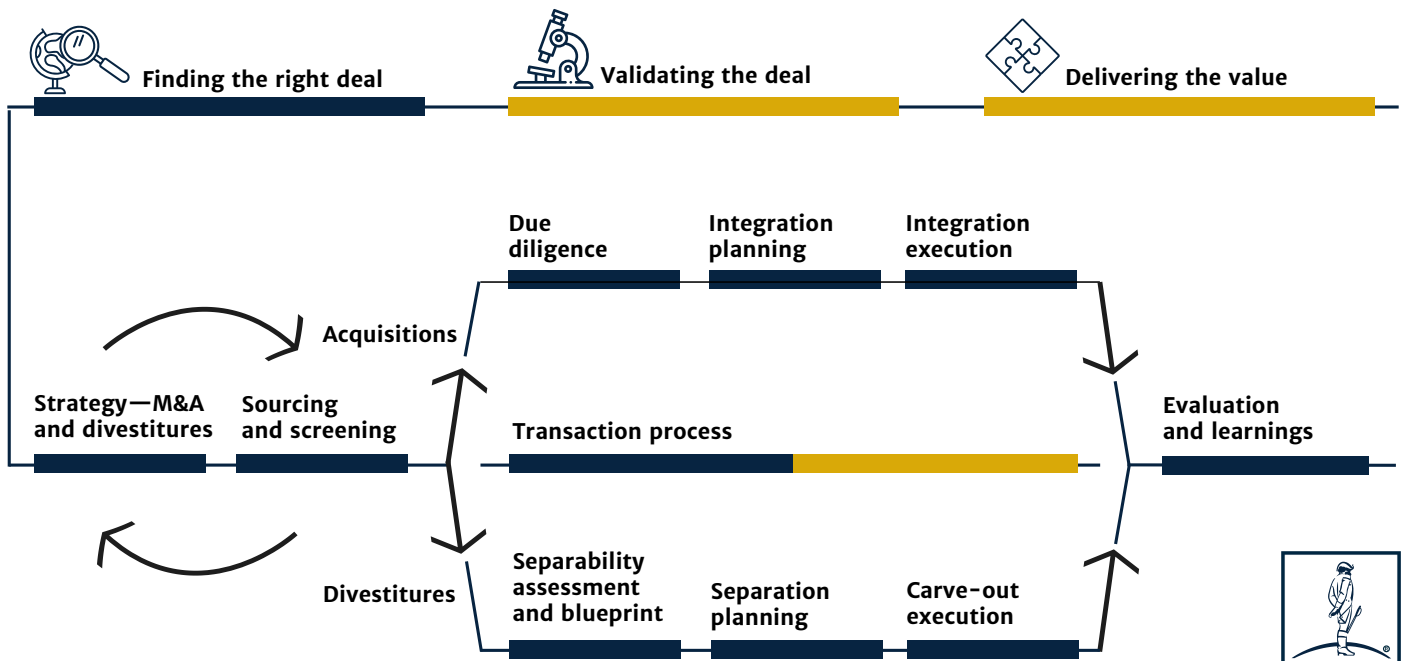
Down cycles and uncertainty force companies to reevaluate their portfolios under new scenarios. While we expect boards to consider divestitures more seriously, it takes a lot of conviction to do one in a downturn.

We expect to see the most divestiture activity in sectors in transition, where divestitures can help fund new investments. For example, the shift to renewable energy from fossil fuels and internal combustion engines could spur more divestment activity in the energy and automobile industries—see “M&A in Automotive and Mobility: Finding Alternative Routes to the Future.” Moreover, a quick sale unlocks not only capital but also leadership focus.

What does this mean for the M&A practitioner?

In a challenging macroeconomic environment and deal market down cycle, M&A executives should customize their toolkits to accelerate decision making, gain conviction in potential deals, and preserve value through integration (see Figure 9).

Figure 9: A strong M&A capability requires strategy-driven enablers to deliver value across the M&A value chain
M&A operating model



Source: Bain & Company

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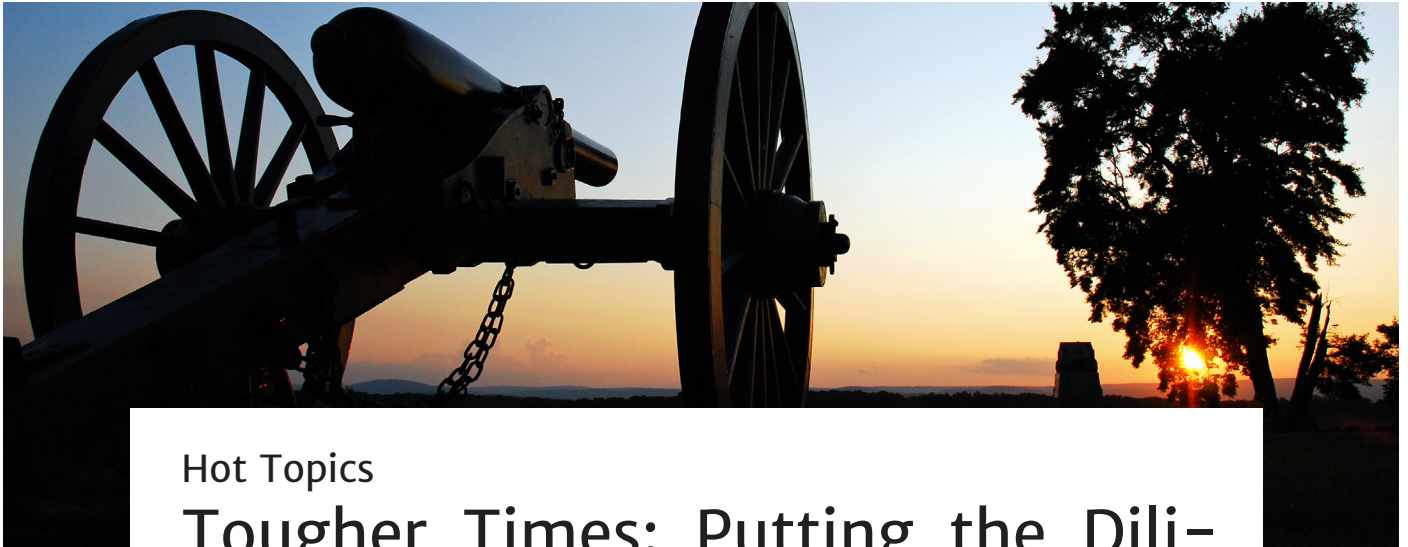
The best companies devote energy to scrutinize their competitors, determining which of them have both the cash and motivation to make bold moves. Winners also identify where and how they can use M&A to accelerate or scale innovation or build an Engine 2.

They gain conviction quickly through rapid and strategic diligence and valuation. Market volatility means buyers need to be confident that their target will be resilient in several future scenarios,

It's also now more critical to preserve and amplify value through integration. The answer is to focus on the specific issues most likely to disrupt the integration rather than the broader cultural landscape that could take years to address.

Some companies may consider bigger portfolio moves such as a spin-off. Such companies should develop a well-crafted separation thesis that helps them to focus and provides a road-map to value creation.





Hot Topics

Tougher Times: Putting the Diligence Back in Due Diligence

Uncertain economic times call for more robust diligence to support a deal's price tag—or identify risks that warrant walking away from a deal..

By Benjamin Farmer, Adam Haller, and Amy Wall.

At a Glance

We've identified four M&A themes to watch for in the year ahead:

- To succeed in a volatile market, be armed with proprietary insights from a world-class diligence that goes deeper, with more focus, and in less time than your competitors .
- Initiating diligence before entering the M&A process helps companies avoid being distracted by potential deals that may not be a good fit .
- Winners go beyond high-level benchmarks in diligence, using the full universe of data available to confidently underwrite deal value .
- The most successful acquirers think through integration implications (how long, what cost, who to engage) during, not after, diligence .

Multiples are in extremely volatile territory, and if history tells us anything, it's that winning companies don't sit on the M&A sidelines, waiting for the market to bottom out; they do deals.

But in the race to acquire in a volatile market, it's more important than ever to have confidence in your deals. The surest way to succeed is to



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come armed with proprietary insights from a diligence that is faster, deeper, and more focused than your competitors. Better diligence allows you to be bold where others might hesitate.

Market leaders use due diligence in three ways to win (or avoid) deals in today’s environment:

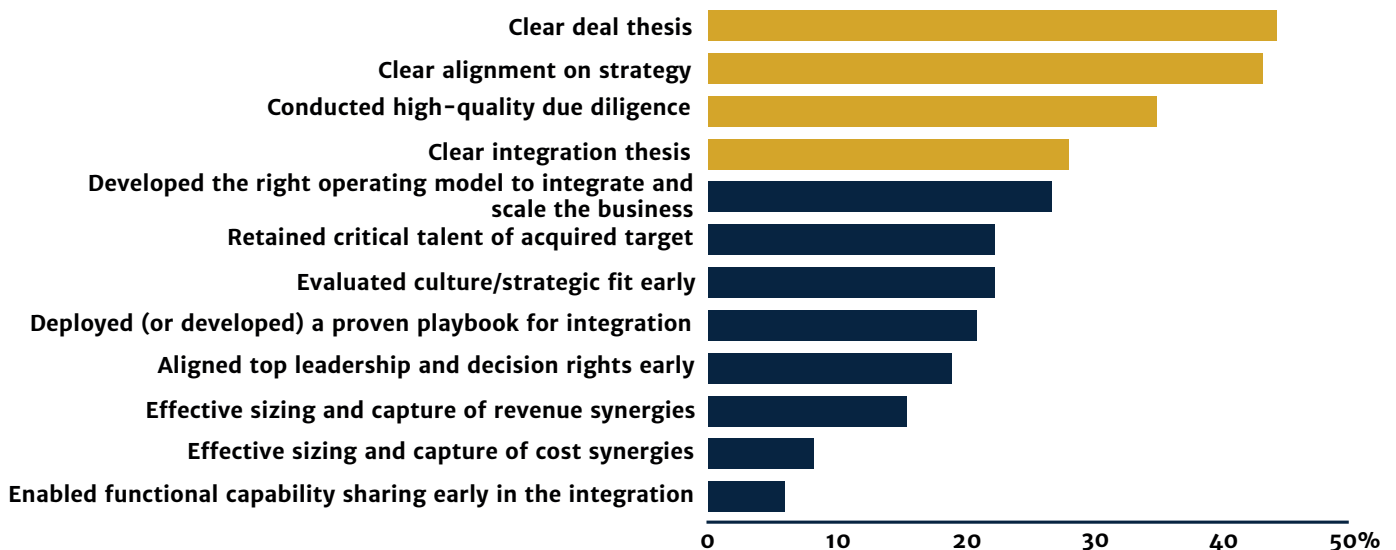
1. Be proactive

Market leaders will not be reactive, but will initiate diligence before even entering the M&A process. This helps them avoid being distracted by potential deals that may not be a good fit with their strategy.

The best companies regularly refresh their sector screen and have an evergreen short list of priority targets that are aligned to strategy. They develop an outside-in view of value so that they can move quickly if opportunity arises—or take the offensive and approach the target proactively with conviction, understanding that the industry may be forever changed if a competitor makes the first move (see Figure 10).

Figure 10: A clear deal thesis is the top contributor to successful acquisitions

Considering all the targets that your company has acquired over the past three years, for any deals that exceeded expectations and created value, what were the main reasons? Select up to three.



Note: Answered only by respondents who indicated that they had made acquisitions that exceed expectations
 Source: Bain M&A Practitioners’ 2023 Outlook Survey



2. Amplify value through proprietary insights

With increasing interest rates and macroeconomic volatility, acquirers need to sharpen their pencils, ensuring real confidence in the deal thesis and looking past the obvious to identify all possible sources of value. Winners go beyond high-level benchmarks in diligence, using the full universe of data available to them to create proprietary insights that will allow them to confidently underwrite deal value. This includes using advanced analytics tools, scraping external data sources, and applying primary research creatively to address blind spots.

3. Plan for successful integration during diligence, not afterward

In diligence, the focus is often on getting the deal done, with execution an afterthought. We see the most successful acquirers thinking through integration implications, including how long integration will take, what it will cost to achieve, as well as who to engage in the process.

The best companies identify the critical issues that underpin the value and build an early integration thesis. They strive to be realistic about costs to achieve, building estimates into the financial model and setting aside the requisite funds solely for the intended integration purposes.

Past recessions have been shown to be pivotal times for companies. Our long-term research proves that proactive dealmakers are more likely to emerge from downturns as winners. But in the race to make bold moves, companies need to not only invest in the diligence process but also use the diligence process to outpace the competition.





Industries

M&A in Automotive and Mobility: Finding Alternative Routes to the Future.

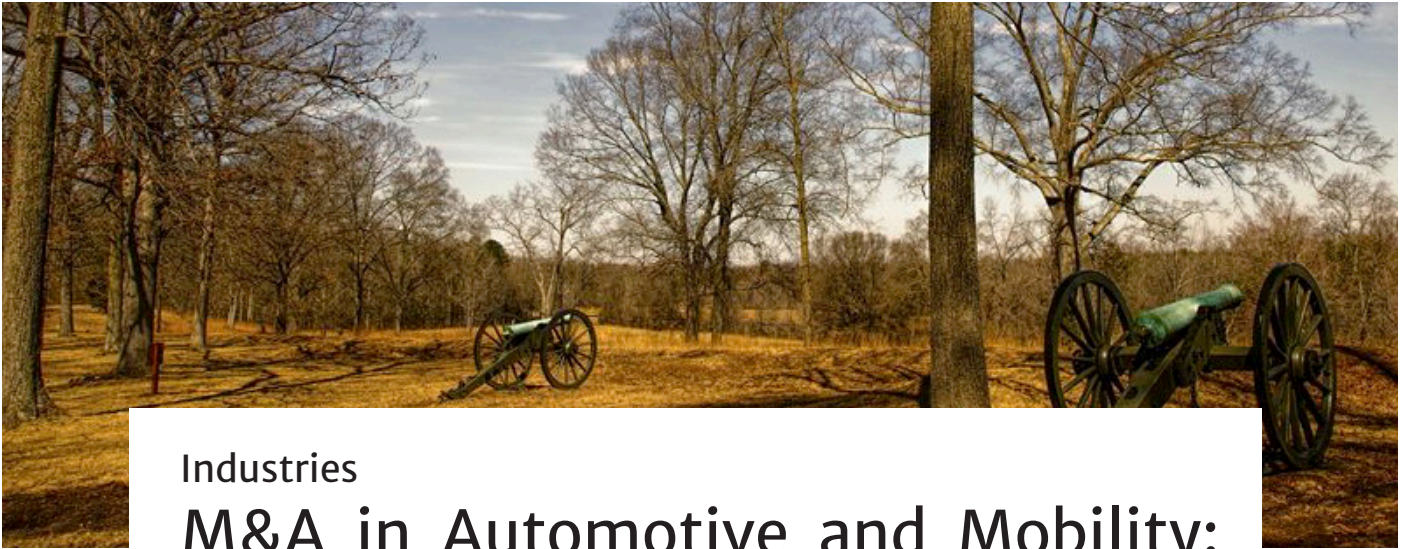
What Consumer Goods Companies Are Learning from Alternative Deals.

M&A in Payments: Four Ways That M&A Will Propel This Dynamic Sector.

M&A in Technology: Never Waste a Good Crisis.

M&A in Bankig: Three types of deals for 2023





Industries

M&A in Automotive and Mobility: Finding Alternative Routes to the Future

Companies that make the right deal decisions now can massively benefit over the long haul.

By Dominik Foucar, Klaus Stricker, Ingo Stein, Ping Yi, and Pedro Correa.

At a Glance

- Real customer focus, autonomous driving, connected and digitized vehicles, electric powertrains, and shared mobility will define the industry's future .
- With stakes so high, substantial capital requirements, and the need to speed up R&D, teaming is helping companies to advance after years of many going it alone .
- Access to financing has tightened, so cash-rich original equipment manufacturers, major suppliers, and tech companies will account for most of traditional M&A .
- During this decisive time, anything is possible—and necessary.

The automotive and mobility industry is advancing in different directions as part of a full value chain transformation, and companies are steaming ahead to deliver what we call the "5 Races":

- Real customer focus.
- Autonomous driving.



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Some companies are making electric vehicle adjacency moves, seeking out new profit pools and critical technology control points.

- Connectivity and digitization of vehicles.
- Electrification of powertrains.
- Shared mobility.

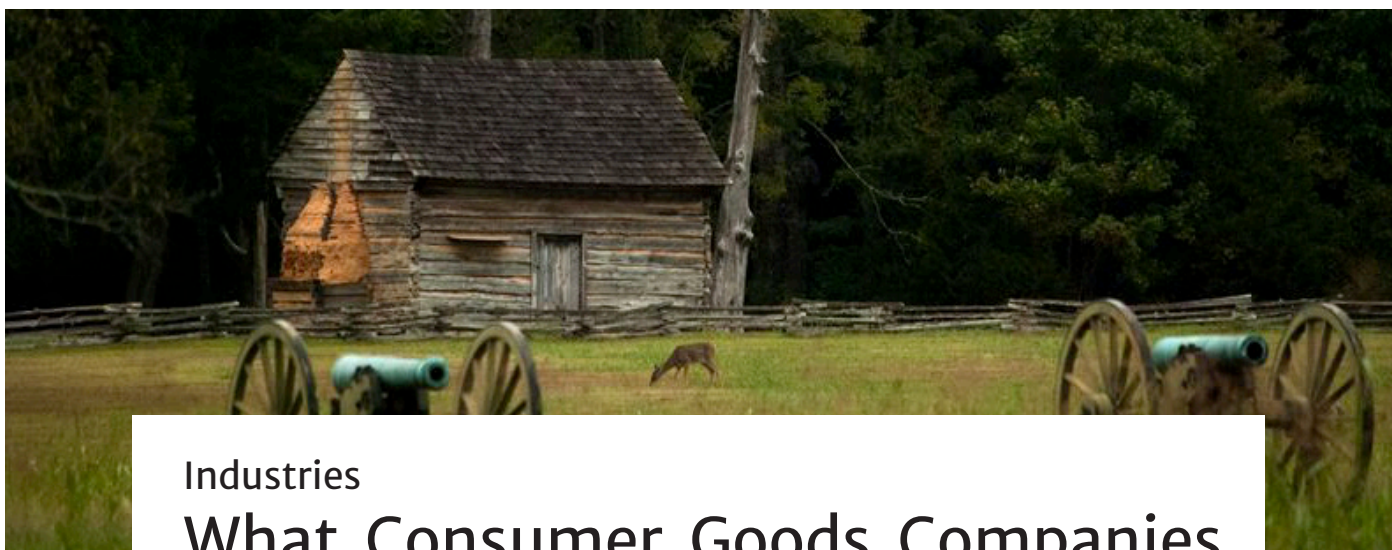
The changes required to compete in the 5 Races are so broad and dramatic that companies will benefit by not going it alone.

On this path, leading companies are quickly leveraging the full array of M&A. That means both traditional acquisitions and mergers, as well as a growing mix of alternative deals. Original equipment manufacturers (OEMs), suppliers, technology companies, and mobility players are forging alliances and partnerships, spinning out divisions, and investing in corporate venture capital (CVC) to get a head start on technology development. Anything is possible (and necessary) depending on a company's strategy.

In some areas of the industry, companies are making electric vehicle (EV) adjacency moves, seeking out new profit pools and critical technology control points. This requires not only evaluating what to buy but also how to integrate a new asset. In some cases, such as in EV batteries, the minimum scale needed to play is too large and risky for one player, and many are turning to partnerships.

Companies from Ford to Harley-Davidson are also separating electric vehicle assets to get share price appreciation and to access growth capital for the business. That was the objective of Ampere, Renault's new standalone company for its EV and software activities. The spin-off will allow the company to get better valuation and access to capital, attract talent, and have better focused teams.





Industries

What Consumer Goods Companies Are Learning from Alternative Deals

As more companies try corporate venture capital deals and alliances, they're also learning how to avoid the pitfalls.

By Peter Horsley, Joost Spits, Sam Rovit, and Maria Kurenova.

At a Glance

- Our survey found that a vast majority of consumer goods companies expect the number of deals, including alternative deals, to stay the same or increase over the next three years .
- But alternative deals don't always deliver, with nearly 40% of partnerships and corporate venture capital investments in the industry underperforming expectations .
- Some of this may come from a lack of strong senior management commitment, unclear governance, poor cultural fit, mistrust, or vague key performance metrics.

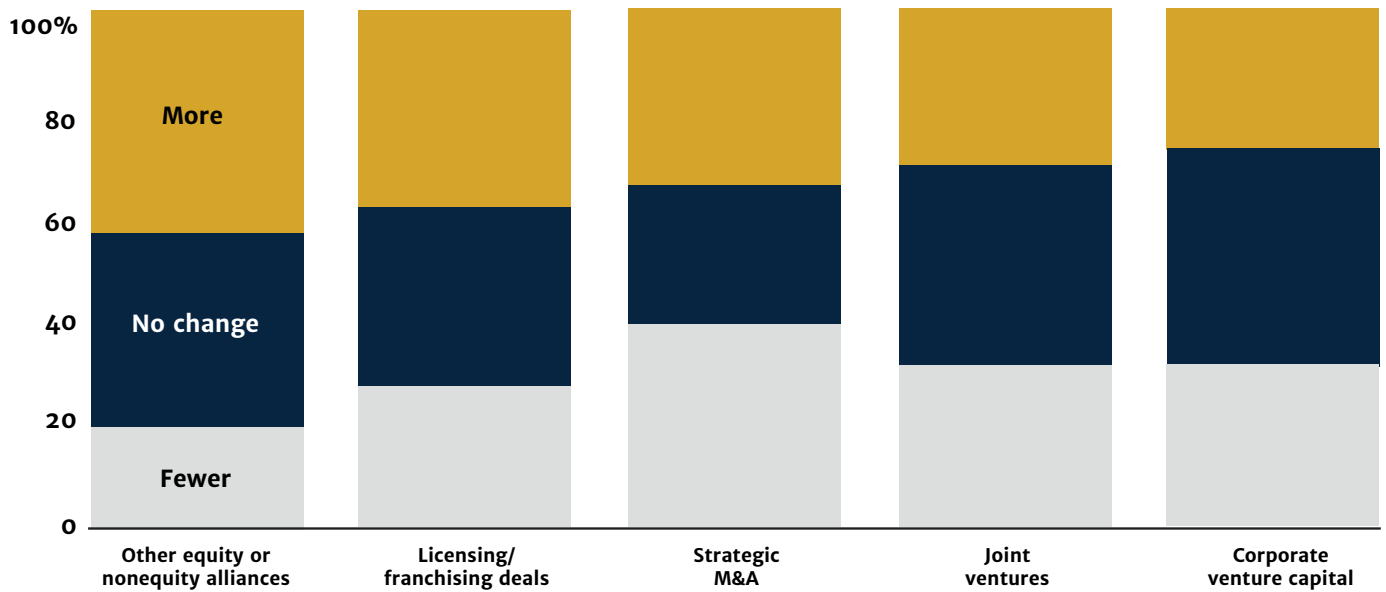
It may be too soon to call it a boom, but in growing numbers, traditional consumer goods companies hoping to achieve their strategic goals are eschewing scale M&A for a range of alternative deals, such as partnerships and corporate venture capital (CVC), that are better suited for the times (**see figure 11**).



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Figure 11: Consumer products companies expect more alliances and licensing deals over the next three years

Within consumer products, what do you expect in terms of frequency of dealmaking by category over the next three years?



Note: Answered only by respondents who indicated they worked in consumer products Source: Bain M&A Practitioners' 2023 Outlook Survey

Indeed, while scale deals still deliver critical value in the right areas of the business, more companies are relying on a broader suite of M&A options. In the first nine months of 2022 alone, we've seen divestitures or spin-offs announced by Kellogg, Vista, Grupo Bimbo, Unilever, and a host of others. While distribution-focused partnerships still abound to build scale in new markets, the past few years have introduced new reasons for joining forces.

Likewise, large consumer goods companies are turning to CVC to create new platforms and to deal with digital disruption, e-commerce evolution, and consumer trends in fast-changing categories such as health and wellness. Another benefit of CVC: Companies learn how to partner with others in the venture portfolio to boost the odds of success for start-ups, bringing new insights and products back into their own business.

Partnerships and venture investing help companies explore new ways to rapidly build resiliency in the face of uncertainty. For example, as consumer attitudes and tastes swiftly evolve, alternative deals allow companies to be thoughtful about where they place their bets by exploring these trends with limited up-front financial investment.

As alternative deals become an increasingly viable option, companies are adapting their M&A playbooks to accommodate. The best companies ensure that strategy dictates what types of



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deals should be pursued, always giving partnerships and CVC teams clear mandates that tie back to strategy.

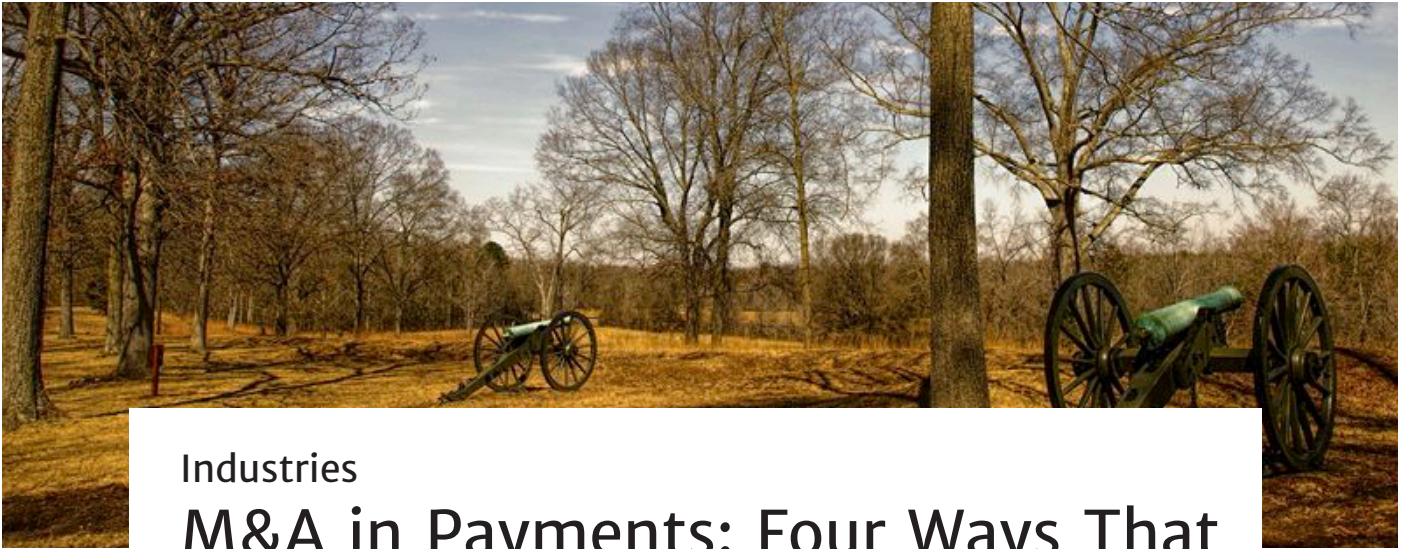
But many companies are learning that even though alternative deals may be more popular, they don't always succeed. Our survey found that nearly 40% of partnerships and CVC investments in the consumer products industry fail to meet or exceed expectations. Digging deeper into the reasons, we found four common pitfalls—and the best ways to avoid them. It starts with asking four fundamental questions.

How are we measuring success?

Key performance metrics that were unclear or not aligned with value was cited as a cause of CVC failure for 45% of survey respondents. It was a particular challenge for CVC deals. Companies making these investments need to apply a lesson from venture investors— they always have solid metrics to determine success across the entire portfolio of investments.

But there's a complication. Financial return is not the only (and often not the most important) reason consumer goods companies should be doing venture-stage investing. They can increase the probability of success for portfolio companies through targeted access to the networks, client bases, and product expertise, as well as to talent, technology, and other capabilities. At the same time, the parent company can benefit from the portfolio company's innovations and talent. With that in mind, the best practitioners set financial and qualitative metrics (e.g., number of partnerships with business, adoption of technology) that measure all these benefits in a way that connects to their strategic goal. Picking the right metric starts with a clear articulation of the CVC's alignment with strategy.





Industries

M&A in Payments: Four Ways That M&A Will Propel This Dynamic Sector

As the boom in “buy now, pay later” deals ended, the bulk of dealmaking shifted to other areas.

By David Gunn, Sen Ganesh, and Tevia Segovia.

At a Glance

- Market volatility and rising interest rates hurt the buy side, and declining valuations meant that companies that didn’t need to sell simply avoided the market .
- Bold companies in the payments sector will pursue capabilities to integrate into offerings and extend propositions via scale deals and cross-border grabs .
- Banks are well positioned to become acquirers in the payments sector, and they have a head start in defining this rapidly evolving industry.

The distinct M&A slowdown in the payments sector after record deal value and volumes in 2021 masks an important reality: This is a dynamic industry that likely won’t maintain its rapid evolution without M&A.



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Consolidation deals are showing up in all varieties.

Market volatility and rising interest rates hurt the buy side while declining valuations on the sell side kept quality assets from coming to market.

Headwinds in the form of rising credit losses, greater competition, and increased regulatory scrutiny made both buyers and sellers nervous. But with falling valuations, again, companies that don't have to sell are avoiding coming to market.

Instead, the bulk of dealmaking is shifting to four other areas where the biggest opportunities are emerging for companies willing to make the bold moves that help them shape an industry.

Scale deals to consolidate

Despite the small number of scale deals made in 2022, consolidation across the payments ecosystem was a major contributor to deal value.

Worldline's acquisition of Axepta Italy and Nexi's joint venture with Alpha Bank in Greece represented regional consolidation. We expect to see all flavors of consolidation continue, particularly in the (relatively) commoditized merchant acquiring sector in which large incumbents need to drive down unit costs to compete with faster-growing challengers.

As the consolidation race heats up, winners are fast emerging—and focusing on their core business.

Cross-border capabilities grab

The cross-border payments sector continues to see many capability-focused deals. Fleetcor's acquisition of Global Reach Group, iBanFirst's purchase of Cornhill, and Ebury's decision to buy Bexs (Brazil). While some of these deals also provide an opportunity to scale up, the capabilities are the real prize for now.

It's not just the cross-border specialists that are capturing multinational alternative payment methods (i.e., noncard payment capabilities); we are also seeing a continuation of the 2021 trend in which multinational gateways and B2B providers expand their global coverage to include an ever-increasing range of local payment methods.

Buying payments capabilities to integrate into software offerings

The US independent software vendor (ISV) market has led the way in integrating payments with wider software solutions highly focused on specific industries. It's a trend that is gradually



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expanding to other regions—Europe, and particularly the UK, are at last showing signs of going in a similar direction—opening up opportunities for M&A. This will take several forms. For example, ISVs will acquire payments capabilities—that’s what happened when Access PaySuite bought Pay360. Also, incumbent payments companies will buy software capabilities, as FIS/Worldpay did when it acquired Payrix, with its capabilities for embedding payments into software-as-a-service (SaaS)-based platforms.

Acquiring capabilities to extend SaaS propositions

Banks continue to eye opportunities to provide banking-as-a-service (BaaS) propositions for third parties, including payments services.

Banks are positioned well to become acquirers in the payments sector, and they have a head start in defining this rapidly evolving industry. Their balance sheets are generally healthy and rising interest rates mean that the liabilities side of their balance sheets is now generating income. So banks looking to buy their way into interesting payments markets are now much more well positioned.

There is also less competition from private equity for deals as the cycle turns and multiple expansion becomes more difficult to achieve. This offers opportunities for banks and other buyers to acquire (for either scale or scope reasons) at relatively attractive rates, but we also expect to see fewer quality assets coming to market as sellers bide their time.

This raises unique challenges for potential acquirers in the payments sector in 2023. For the capability hungry, acquiring high-quality assets will require bold approaches to companies that are not necessarily looking to sell—and striking a fine balance on offers that get them to the table without overpaying.

For the consolidators, there is a window of opportunity to absorb competitors at less stratospheric prices, particularly those that are unwilling or unable to invest to maintain their competitiveness.

For potential sellers, the key will be getting to maturity and profitability (or at least on a clear path to profitability) as fast as possible. The environment has much less tolerance for cash-burning models.





Industries

M&A in Technology: Never Waste a Good Crisis

Why bold tech companies don't wait out the uncertainty.

By Adam Haller and Chris Johnson.

At a Glance

- Despite the macroeconomic uncertainty that has curtailed M&A, bold technology companies are still minting game-changing deals to emerge stronger out of the downturn .
- Those that boldly move with speed can take advantage while valuations are down—most dramatically, for high-growth companies .
- The time for tech companies is especially ripe now as competition from private equity investors has dropped .
- This period of golden opportunity will not last forever . History tells us that ambiguity, not recessions, slows down tech M&A markets and that once uncertainty tapers, activity—and likely valuations—should return .
- To successfully take advantage of this opportunity, companies need to move with urgency, be proactive, turbocharge their diligence, and focus on accelerating synergies.

As they experienced negative headlines marked by recession fears, rising interest rates, and record- high valuations, many tech companies opted to put their M&A activity on hold in 2022. Deal value was down 45%, and deal volumes dropped by about 4% for the first 10 months of the year compared with the same period in 2021 (excluding gaming companies).

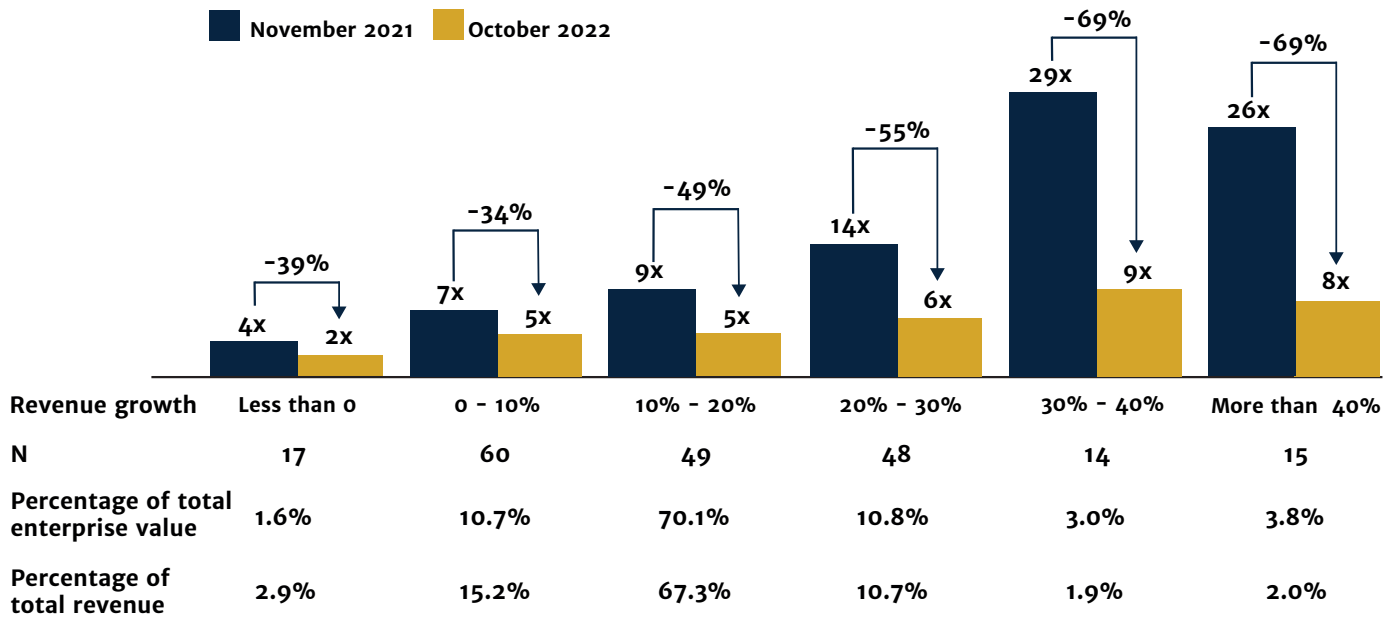


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Large companies with ample cash that were willing to do the work and move quickly found opportunities for placing strategic big bets in 2022. Fortune favors the bold. Companies that we refer to as “mountain climbers”—that is, those that engage in repeated and material M&A—outperform their less-active counterparts regardless of the economic cycle. In the tech industry, mountain climbers achieve an average 15.7% annual total shareholder return compared with an average of 12.7% for all companies studied (see figure 12).

Figure 12: Valuations remain down vs . late 2021, and high-growth companies have been hit hardest, with as much as a 70% decline in 2022

Public market valuation multiple as of October 2022 (total enterprise value/next 12 months’ revenue).



Note: Company industry filtered for “Internet services and infrastructure” and “software”; companies filtered for greater than \$50 million in last 12 months’ revenue; revenue growth and N based on October 2022 last 12 months’/next 12 months’ figures; excludes companies with incomplete data.

Source: S&P Capital IQ (as of October 4, 2022)



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This makes it more of a buyer's market for tech companies; they have more cash at a time when there's an abundance of attractive growth assets from which to choose. Meanwhile, competition from private equity (PE), which had gained momentum steadily over the past decade, has dropped, with PE firms representing only 38% of deal value during the first nine months of 2022, down from 43% during the same period of 2021. At the same time, the IPO market has frozen, special purpose acquisition companies have all but disappeared, and growth equity has slowed—all of which limits a target's ability to raise money and favors strategic acquisitions.

Why do so many companies still sit on the sidelines whenever times seem right for buying? Some wait for prices to further decline. They view the stark decline in activity as an indication that valuations haven't bottomed out yet and that there is still time to wait. History tells us, however, that ultimately it is ambiguity, not recessions, that slows down tech M&A markets.

But as executives become aware of the deals before them, some recognize that you can't wait until the worst has passed. Once uncertainty tapers, even if we are still in a recession, activity is likely to pick up and you will have missed a golden opportunity.

It all comes down to speed

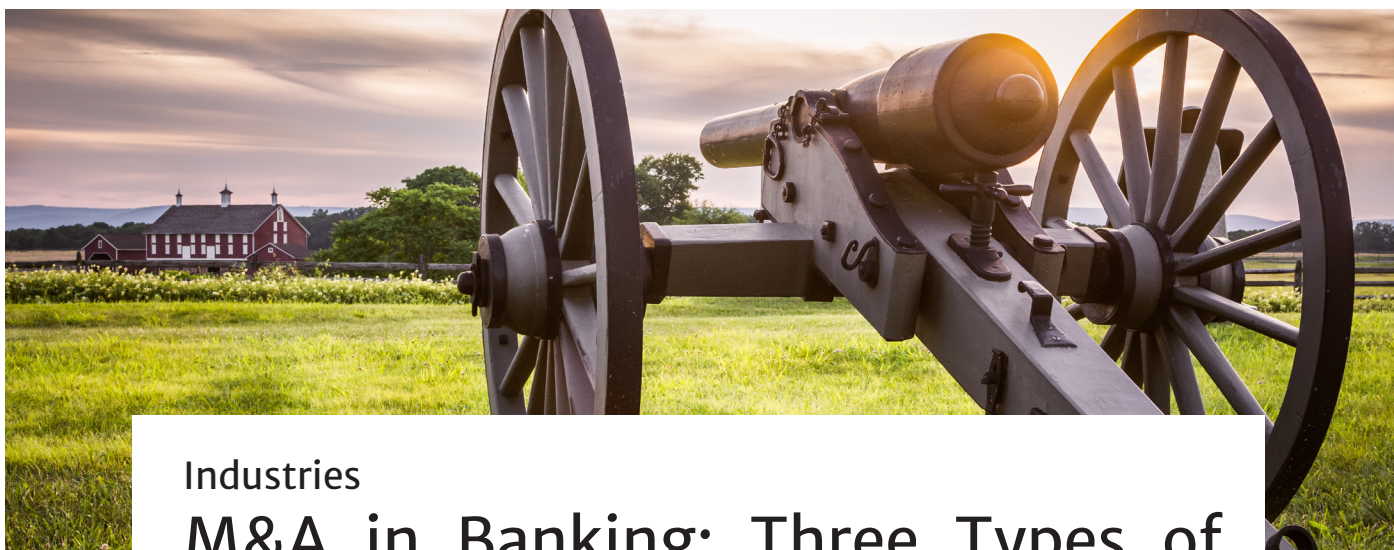
So amid the uncertainty, how does one get the conviction required to leave the sidelines?

Be quick. Tech players that forged winning deals during past periods of macroeconomic uncertainty and recessions moved quickly while the supply/demand imbalance remained and as other buyers waited. Uncertainty and recessions present temporary dips for temporary buying opportunities, and sophisticated buyers know that if they don't move quickly, somebody else will.

Be on the lookout. Know exactly what type of target you want to purchase by keeping your strategy fresh and updating priority sector scans. Then when opportunities arise, it will be easy to jump into the fray. Those without a proactive plan should be building one now.

Turbocharge diligence. Execute due diligence with speed, thoroughness, and an eye toward integration, supported by outside data sources.





Industries

M&A in Banking: Three Types of Deals for 2023

Banks are pursuing three types of deals to navigate a changing industry.

By Daniele Funaro, Katrina Cuthell, and Matt Keith.

At a Glance

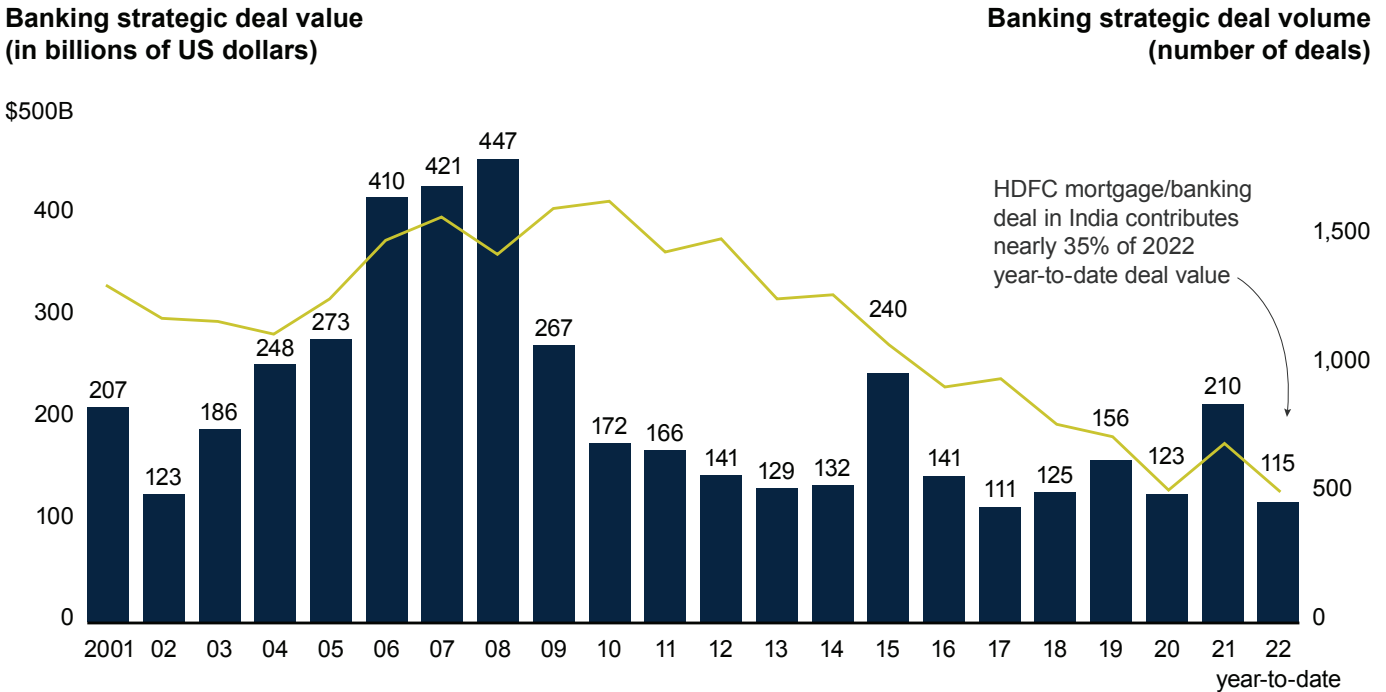
- More than half of total banking M&A in 2022 involved deals valued at greater than \$5 billion vs. around 25% throughout the previous 10 years.
- To improve operations in the downturn, many banks will sell off or find partners for units that are noncore or subscale, requiring significant investment.
- More banks are acquiring to establish a new growth engine, expand current product and service offerings, and gain distinctive capabilities and competencies

Similar to so many other industries, banking saw M&A activity stall in mid-2022 amid rising interest rates and mounting macroeconomic concerns (**see Figure 13**). But we expect the year 2023 to be one in which more banks turn to M&A to deliver on strategies that will better position them as the industry continues to rapidly evolve.



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Figure 13: Banking deal value and volume declined from 2021.



Note: Strategic banking industry includes corporate deals and private equity add-ons
 Source: Dealogic as of October 31, 2022

Several trends will make M&A an attractive option. Higher interest rates will bolster top-line growth for healthy banks while a downturn could make it necessary for less sturdy banks to merge or sell. In Europe and other regions where banking is fragmented, regulators are showing support for scale deals. As digital options emerge and customer needs change, banks are determining where they want to play and how they want to compete. They are looking to sell noncore assets and buy new capabilities to deliver their portfolio strategy faster, cheaper, and more effectively than they could on their own. Expect more deals similar to National Australia Bank’s 2021 acquisition of neobank 86 400 to spur the growth of its UBank digital-only bank.

We expect to see three types of strategic deals in 2023: scale deals for consolidation, scope deals to focus on the core, and deals for a new growth engine. More than half (51%) of total banking M&A in 2022 involved deals valued at greater than \$5 billion compared with around 25% throughout the previous 10 years.



Scale deals for consolidation

We've already seen BMO Financial announce a \$16.3 billion purchase of Bank of the West from BNP Paribas, enabling the Canada-based bank to almost double its presence in the US. The deal also allows BNP to make a strategic move by exiting the US to cash in and invest significant resources in potential deals in other geographies. Another 2022 scale deal involved Toronto Dominion Bank's announced \$13.4 billion acquisition of First Horizon, which also is aimed at enabling a Canadian bank to expand its US footprint.

Banks pursuing scale M&A in the current uncertain macroeconomic environment require a clear understanding of how healthy their business is and how well their operating infrastructure can integrate new assets. They also require a deeper focus on due diligence than they are accustomed to taking (see "Tougher Times: Putting the Diligence Back in Due Diligence"). For example, acquirers need to stress test the potential deal's ability to create value in different scenarios. That means ensuring the quality of the target's capital will hold up. It's also critical to understand whether the target's digital infrastructure (i.e., how it manages data) is suitable and easily integrated. Buyers need to make sure the best talent will be protected and integrated the right way. And even in geographies where regulators are encouraging consolidation, it's important to invest the time up front to anticipate and satisfy any possible regulatory concerns.

Scope deals to help a bank focus on its core

Downturns are a time for companies to improve operations and sharpen the focus on where they should invest resources. The answer for many will be to sell off or find partners for units that are noncore or subscale, with no clear competitive advantage, and that require significant investment. Consider that in Australia, all banks have either divested their wealth management assets or are

in the process of doing so. Specialized players and private equity funds are increasingly willing to invest in such deals, taking advantage of less competition and more favorable valuations in a downturn.

Sellers need to make sure what they're selling is consistently performing and that there are clear asset boundaries in the agreement. Also important: finding a buyer with a strong parenting advantage and that could become a source of future business.

Deals for a new growth engine

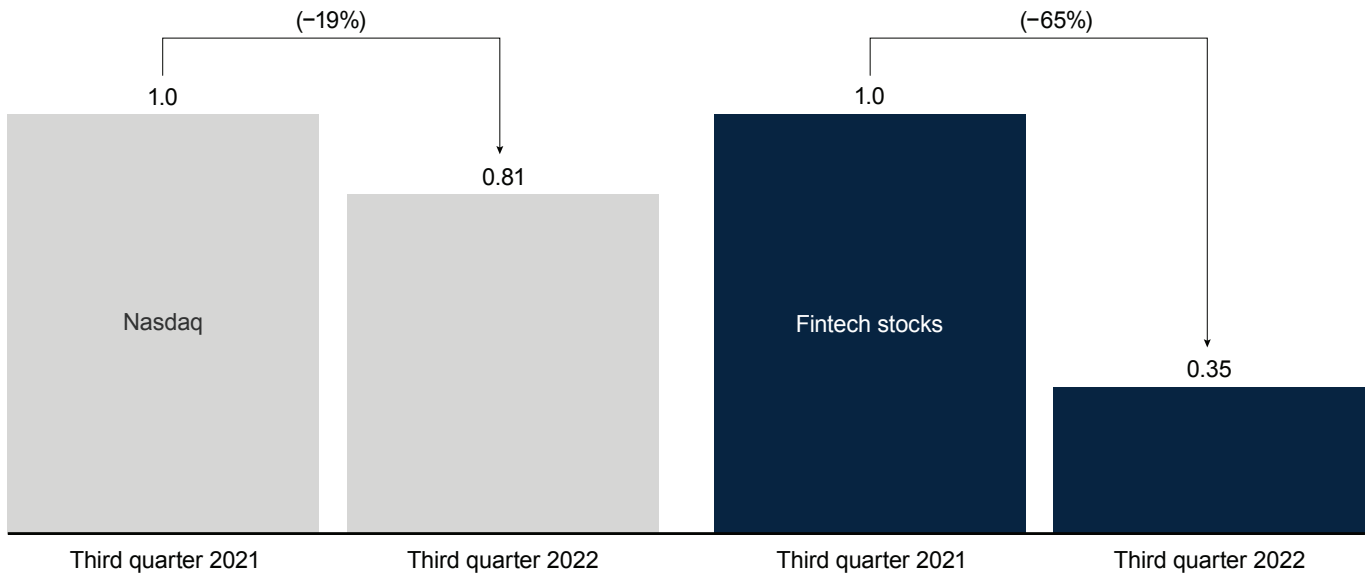
We call them Engine 2 businesses. They are new businesses within existing companies that use the scale benefits of the core business and of their client base to grow faster than a new start-up could. Some banks are pursuing innovative fintech assets that enable them to expand their current product and service offerings as well as provide them with distinctive capabilities and competencies. Either way, it's an opportunity to diversify and improve revenue streams. Valuations for fintechs have dropped significantly in 2022 (see **Figure 14**).



Global M&A Report 2023

Figure 14: Fintechs have experienced significant declines in their valuations.

Stock price relative to third quarter 2021



Note: Fintech stocks represented by ARK Fintech Innovation ETF top 10 holdings (47% of total assets), including Square (now Block), Shopify, PayPal, Sea Limited, Zillow, JD.com, Twilio, Coinbase, MercadoLibre, and Pinterest
 Sources: CB Insights; Yahoo Finance

More banks will follow the path of JPMorgan Chase, which in 2021 bought Nutmeg, an independent digital wealth management adviser, to complement the launch of its Chase brand in the UK online banking market. It followed up that acquisition in 2022 with the purchase of cloud-native payments tech firm Renovite. The move helps JPMorgan Chase modernize its tech infrastructure and create greater flexibility for its merchant acquiring capabilities globally. In another 2022 deal, Société Générale agreed to buy a majority stake in payment fintech PayXpert. Acquiring that asset strengthens the bank’s payment solutions in Europe for retail and online merchants.

These deals require special considerations. Number one is ensuring the quality and distinctiveness of digital components and how they will be integrated into a buyer’s strategy. Also, since there’s a high risk of losing talent in scope capability deals, the best companies create a specialized approach to retaining talent. For example, to the extent possible, they develop a program to engage mission- critical talent as if they were entrepreneurs—that is, with independence and tailored compensation.



Global M&A Report 2023

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