US Megadeals: The deals that were and the deals to come - Analysis

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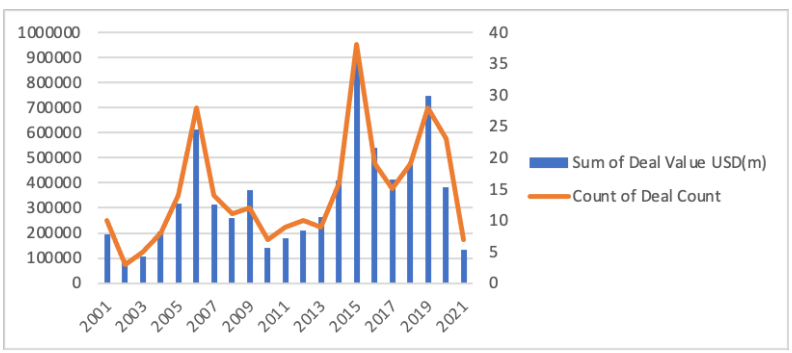
Since 2000, the US has seen more megadeals than any other country or region. A total of 307 mega-deals (defined by deal values of more than USD 10bn) worth USD 7.3trn have been announced between 2001 and YTD 2021 (30 April).

"Businesses in the US have felt more comfortable making large, long-term strategic investments than their foreign peers," said Partner Michael Deyong at White & Case, which ranks eighth on US mega-deals over the past two decades having completed 68 deals valued at USD 1.7trn. He further attributed this to megadeal financing – a large part with stock, as well as activist-shareholder lead transactions.

An average of about 14 deals at USD 346bn per year were announced in the past two decades with a sharp spike being seen in 2006, just before the Global Financial Crisis, and then again in 2015 which saw flourishing megadeal values and volumes for several sectors including financial services, TMT, energy and consumer.

This was partially due to investor support for M&A and a low interest rate that allowed for cheap financing, Deyong continued. Companies were also "under extreme pressure from investors to do something with their large cash stockpiles after years of share buybacks."



TMT and Pharma megadeals expected in 2021

Already in 2021, seven megadeals have already been announced including, one in computer software, Nuance Communications [NASDAQ:NUAN]; two in biotechnology, PRA Health Sciences [NASDAQ:PRAH] and PPD [NASDAQ:PPD]; and one straddling both, Change Healthcare.

"The pandemic highlighted the importance of technology to businesses, families and individuals that all relied on technology to work, shop and study, resulting in strong demand for technology and high valuations for the tech companies providing such products/services," said partner Tali Sealman at White & Case.

"For obvious reasons," she continued, "the healthcare sector saw increasing valuations as well during the pandemic." This was especially true at the upper end of the market where, Sealman said, "Companies in the technology and healthcare sectors found themselves flush with cash thanks to strong demand and valuable shares that can be used in acquisitions."

Megadeals would likely thrive because "companies have learnt how to mitigate some of the risks associated with such acquisitions and in particular the integration efforts" with post-merger integration being a focal point in pre-deal discussions, Sealman added.

Partner Jim Langston at Cleary Gottlieb Steen & Hamilton pointed to a host of other reasons that could lead to more megadeals this year and beyond, such as "strong economic growth, buoyant stock prices, deep financing markets and high levels of confidence in the C-suite and boardroom." Other sectors that could benefit from the current environment include financial services, automotive and transportation.

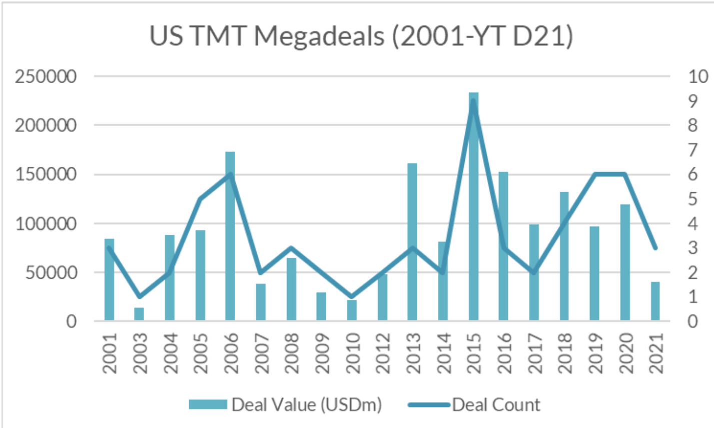
PE Megadeals

A growing trend since 2020 has been private equity firms achieving mega-sized exits for portfolio companies. A few examples this year include **Blackstone**'s ongoing sale of **Change Healthcare** to **OptumInsight** for USD 12.5bn and **Hellmen & Friedman**'s sale of biotech firm **PPD** to **Thermo Fisher Scientific** for USD 20.9bn.

A major driver of this trend is fund sizes, said White & Case Partner Luke Laumann, who noted Hellman's Fund VII 2009 vintage was USD 8.9bn, and nine years later its Fund IX was USD 16bn. The result is that portfolio companies are often starting larger. Another important driver is that debt and some mezzanine financing has been available at good rates and do not serve as a "binding constraint on deal size while maintaining the typical leveraged model."

Furthermore, many sponsors are rolling over or reinvesting out of a new fund, rather than doing a complete exit. This allows sponsors to participate in even larger deals and, in particular, in portfolio companies that have proven to be particularly successful, Laumann continued.

Cleary Gottlieb's Langston added that a "greater willingness" among PE firms to sell large portfolio companies to publicly listed companies in exchange for stock is also enabling larger deals.



To SPAC or not to SPAC?

According to *Dealogic* data, globally there have been three de-SPAC deals valued above USD 10bn so far this year, with only one targeting a US-based company: **CCIV**'s USD 17.65bn acquisition of **Lucid Motors** announced in February.

The current de-SPAC wave is similar to financing / capital raising transactions than M&A - much like an IPO, said Josh Dubofsky, a partner in the M&A practice at Latham & Watkins. It has brought a number of large companies public and more are on the way. "We would expect many of those companies to be players in consolidation in the years to come, particularly in areas that have seen significant de-SPAC activity, like electric vehicles and related industries."

However, numbers show that SPAC activity has declined in the past few weeks. Cleary Gottlieb's Langston noted the SPAC downshift is not surprising given headwinds that include volume of SPAC deals outstripping demand, many SPACs trading below the IPO price, high-profile short campaigns targeting SPACs and greater scrutiny from the SEC.

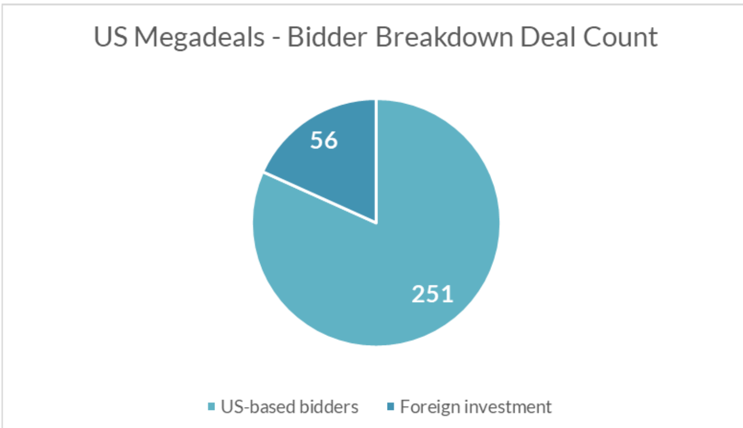
Increased antitrust scrutiny and FDI barriers could pose a threat to megadeals

Roughly 18% of the 307 US megadeals involved a buyer in a different geography. Between 2000-2010, there was a wave of increased merger control regimes as the Europeans adopted an EU-wide protocol in 2004 and the Chinese adopted their own protocol in 2008, said White & Case's Laumann.

While these have matured and "become more predictable," there is now a new spurt of cross-border investment transactions, Laumann continued. "Most of the action is taking place with new or expanded foreign direct investment (FDI) filing regimes. In the US, Congress has made significant changes to the CFIUS filing regime, introducing a mandatory system. FDI screening has increasingly been seen in many countries including the UK, France, Spain, India, China, Japan and Mexico, which have broadened their stances.

Latham & Watkins' Dubofsky agreed many megadeals now face "strong headwinds" either because of antitrust or FDI. To position and complete, such deals "require thoughtful planning and deep, global cross-border experience to position and complete."

Cleary Gottlieb's Langston agreed that the world is facing "a higher degree of regulatory uncertainty – both in the US and globally" and that is combined with COVID-19 aftershocks. "Otherwise, we'd be seeing more megadeals than we are today."



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