

Baker Tilly International—Acuris thought leadership campaign

# Global dealmakers: Cross-border M&A in 2021

Now, for tomorrow





**Global deal values were down 9 percent, which is considerably better than anticipated in a pandemic year that completely disrupted the way businesses interact. It shows people are prepared to push through any scenario to do deals, if they have an inorganic growth strategy.**

## Executive summary

Global M&A was in a pandemic-induced freefall in 2020 but a strong recovery is now underway.

Markets, confidence and corporate strategies were shaken last year as governments the world over struggled to contain the spread of COVID-19. At their nadir, M&A deals sank to lows not seen since the global financial crisis. However, with the announcement of vaccines and government stimulus to combat the pandemic, M&A activity and overall market sentiment improved, marked by a sharp uptick in deals that progressed through the latter half of 2020.

The strong recovery through H2 will see momentum continue in 2021 — provided vaccine rollouts around the world are effective and governments deliver effective stimulus measures to stabilise economies. The reopening of borders and economies hinges on these two factors, and failure in either could see confidence plunge.

Throughout 2020, dealmakers demonstrated incredible resilience in challenging times. With international travel restricted in many parts of the world, dealmakers adopted innovative and creative practices to get deals done. These measures are still being deployed and will continue until a new normality has been achieved.

Many dealmakers are confident that the strength of the current rebound will gain momentum in the year ahead. Equity markets are doing well and, with low interest rates, there is strong impetus for companies to pursue growth through M&A. While distressed M&A is likely to rise for some companies and sectors experiencing ongoing financial stress, this also creates opportunities for corporate and private buyers positioned to do a deal.

In this report, we look back on activity from 2020 while anticipating the trends that will shape 2021. We hope you find this an informative read and invite you to join the conversation by reaching out to one of our many global partners.



# Contents

**02**

Executive  
summary

---

**04**

M&A snapshot 2020

---

**05**

Global M&A in 2020 –  
and where to next?

---

**07**

Regional focus: Key markets  
and cross-border M&A

---

**10**

Sector watch:  
TMT steals the show

---

**12**

Private equity  
spotlight

---

**14**

Baker Tilly contacts

About this report: Data in this report comes from Dealogic and was compiled on 15 January 2021.  
All figures are in USD unless otherwise stated.



# M&A snapshot 2020







# Global M&A: 2020 in review – and where to next?

Global M&A was shaken in 2020; however, the impact of COVID-19 may not have been as bad as expected and the rebound experienced late in 2020 is expected to continue into 2021.

Dealmakers felt a full range of emotions as markets rapidly declined and then recovered across 2020. The freefall in M&A through much of the first half of the year – with deals sinking 38% in value (US\$1.1tn) and 16% in volume (15,891 deals) from H2 2019 – saw overall activity sink to lows not seen since 2009 and the immediate aftermath of the global financial crisis. However, a rebound was quick to form and, by Q3, M&A was once again on the uptrend, rising 146% in value and 17% in volume from the previous quarter. This trend continued through year end with deal totals for H2 closing 122% higher in value (US\$2.5tn) and 5% higher in volume (16,700 deals) from H1.

While annual totals declined 9% in value (US\$3.6tn) and 12% in volume (32,591 deals), this follows a three-year downward trend in values which hit a peak in 2018 (US\$4.1tn). In recent years, deal volumes reached a high of 40,807 deals in 2017: however, this was a peak in a broader downward trend as observed in trailing 12-month totals.

## Deal drivers

An impressive surge in activity among key buyers and markets helped drive deals through the year. Tech-driven M&A led the charge, with the TMT sector contributing vast sums to deal activity globally (discussed on page 10).

To a smaller but no less important extent, energy deals provided a boost to totals as a shift from traditional to renewable energy generation unfolds globally.

However, it may be private equity deals that stole the spotlight. In spite of the pandemic, global private equity investment climbed to its highest annual value since the Global Financial Crisis (GFC) (discussed on page 12) as funds put historically high levels of dry powder to work.

## Cross-border M&A

Domestic M&A accounted for 74% of deal value and 79% of volume as dealmakers stayed close to home, although these figures are in line with historical trends where homebound deals account for the vast majority of transactions.

Looking at cross-border activity, global international M&A dropped precipitously in H1 as governments worldwide imposed quarantine measures and border closures to prevent the spread of COVID-19. While some had yet to ease these restrictions through H2, cross-border M&A totals saw a sharp uptick starting in Q3 to year end, with value in Q4 among the highest in the past five years.

For the year, global cross-border M&A was down 12% by value and 20% by volume.

## Outlook 2021

Deal activity for Q3 and Q4 2020 were among the highest on record as dealmakers spent their way through the crisis. This unprecedented drive helped propel average deal value above that of 2019, averting a lull and a more prolonged recovery similar to that in the post-GFC period. As confidence continues to grow, the question arises: is it onwards and upwards in 2021?

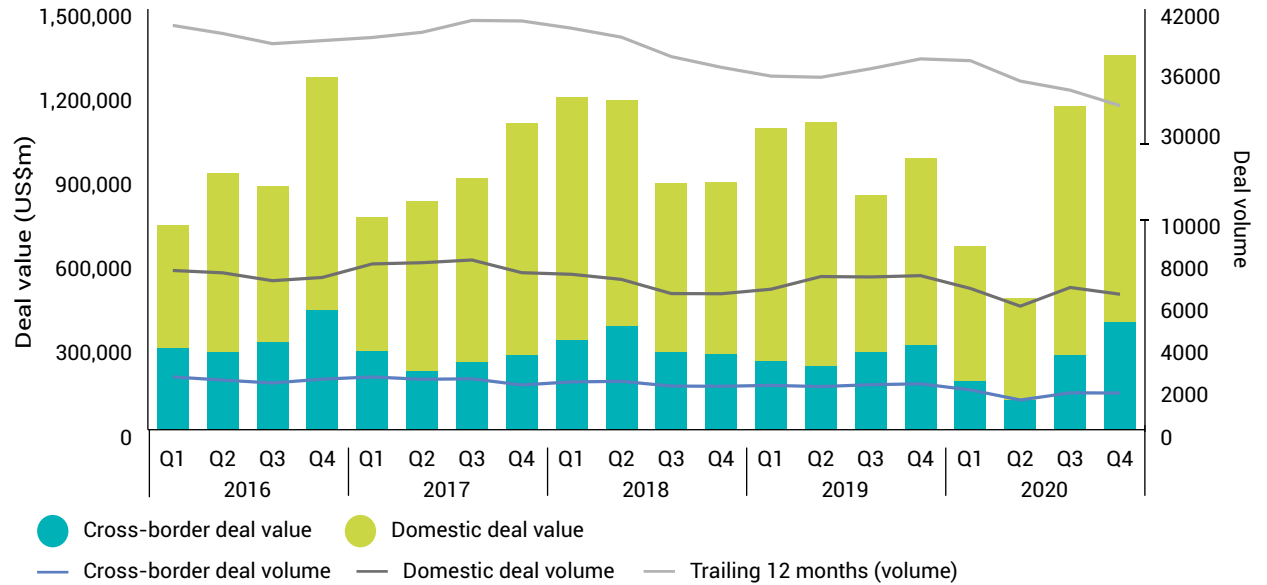
Several indicators point to a continuation of the current trend. Interest rates remain low, creating enthusiasm among various buyers pursuing M&A to expand their businesses. Equally, the lessons learned from doing deals during a pandemic, with travel limited and remote work a necessity, will carry over as long as needed, with dealmakers utilising new best practices to carry out all aspects of the deal.

Much of the current optimism, however, may hinge on the effectiveness of COVID-19 vaccines being rolled out worldwide. Setbacks in distribution or efficacy could have a knock-on impact on confidence that an economic recovery is in sight.

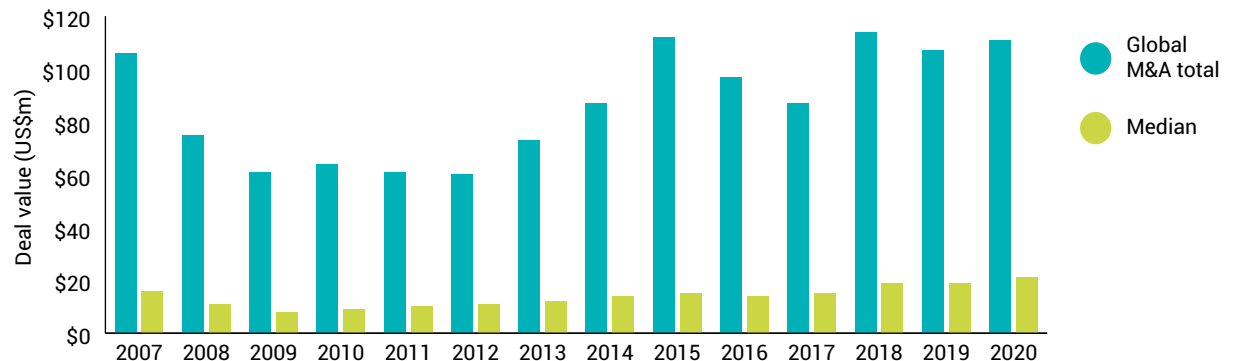
Government stimulus is another important consideration. While policymakers deployed strong stimulus and support measures last year to cushion the fall in business activity, questions arise about what will happen as this support is scaled back.

Another consideration is that while some companies are pursuing growth or acquiring needed capital to expand, many others are simply focused on survival. Insolvencies and bankruptcy filings climbed steadily in 2020, and Debtwire restructuring data shows a 33% year-on-year increase in US filings as distress rises across industries. Corporations operating globally could also feel this pressure as government stimulus and aid packages are withdrawn as the pandemic abates.

## Global M&A: Domestic and cross-border deal totals



## Global M&A: Average deal values US\$m







# Regional focus: Key markets and cross-border M&A

Confidence remains strong in North America and Europe, although Asia Pacific may be gaining ground as a target market for M&A.

North America held its place as the dominant market for M&A in 2020, accounting for almost half (43%) of global values. The biggest gain, however, may be seen in Asia Pacific. Since 2019, the region's value as a percent of global M&A increased from 23% to 28%, with volumes likewise rising from 34% to 37%. This stands in stark contrast to North America, which saw both volume and value decrease across the year.

Cross-regional M&A was strongest between North America and Europe, most notably the 135% increase in year-on-year deal value as North American buyers scooped up European assets. European cross-border activity into North America likewise increased, although by just 5%.

While not completely seated on the sidelines, Asia Pacific cross-regional M&A decreased noticeably. Deal values in 2020 for M&A into Europe declined 47% from 2019 with a similar 15% decline toward North America.

## North America: Hope hanging in the balance

While US M&A rebounded quickly in H2 2020, an untested new White House administration and ongoing pandemic means much of the market uncertainty faced in 2020 may spill over into 2021. Dealmakers, however, are learning to adapt, finding new ways to execute deals and providing confidence that activity will continue unabated.

Helping to provide impetus to M&A, special purpose acquisition companies (SPACs) are emerging to buttress deals. According to data from Dealogic, there were 248 SPAC IPOs in the US in 2020 raising a combined US\$82.4bn, equivalent to a 6x increase on 2019. SPACs have been targeting increasingly larger deals in the past few years, with the average acquisition size growing to US\$1.39bn in 2020 from US\$92m in 2012.

There are signs that struggles are yet to come. In 2020, a growing number of troubled companies led to increasing distressed M&A. Since March 2020, more than 250 companies with aggregate liabilities above US\$200bn entered bankruptcy protection in the US, according to data from Debtwire. Financial uncertainty and a stifled economy could see these figures balloon in the year ahead.

## Asia Pacific: Chinese deals drive trends

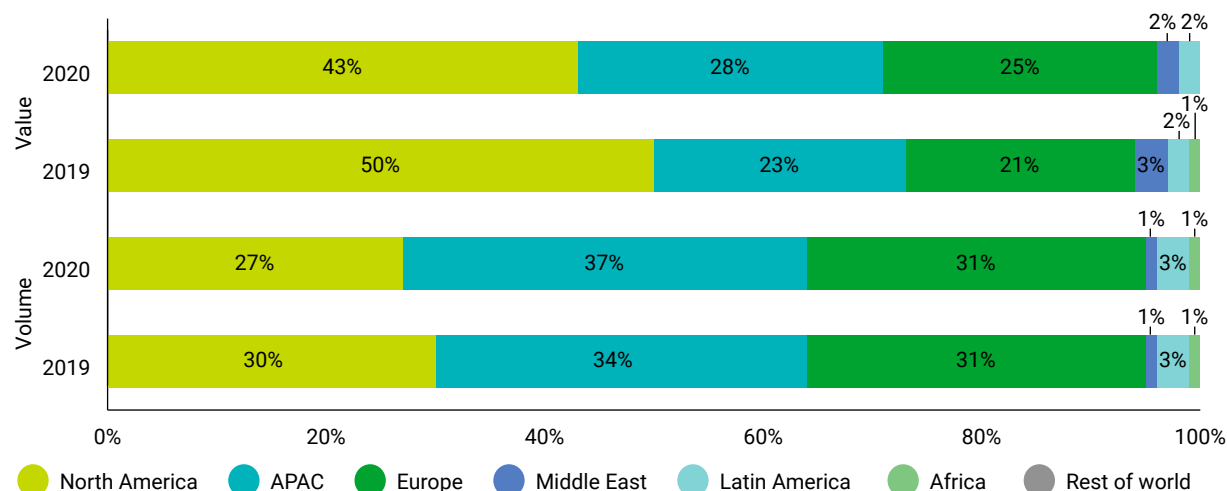
Deals in Asia Pacific were driven by North Asian buyers (predominantly Chinese investors) who accounted for 63% of value for the region (US\$641bn). These deals made up more than half (51%) of total deals (6,098) within Asia Pacific for the year.

Chinese M&A was heavily concentrated in the domestic market, with 94% of deals (both volume and value) in 2020



In the initial disruption, people bunkered down to assess what they needed to do for their business to survive. Once they were comfortable with survival, they recommenced stalled deals and started new ones, which resulted in a spike in the second half of the year and contributed to the significant recovery. With the chaos comes opportunity and suddenly there were really clear trends. A reduction in international tourists? We're now investing in local tourism. Everyone needs to work online, so now we're investing in desks and technology.

Global M&A: Target geography deal activity



completed within China's borders. These were increases from 88% value and 92% volume the year before.

China's state-owned enterprises (SOE) reforms promoting industrial consolidation and upgrades were major M&A drivers in 2020 and are expected to continue in 2021. The sector accounted for 13% of Chinese M&A value and 18% of volume in 2020. China's energy and banking reorganisation and consolidation drive has also propelled deals. In line with global trends, TMT was also a hot sector (23% value and 32% volume) where Chinese buyers were particularly active.

China's outbound ventures were more limited in 2020, with cross-border M&A declining 41% by value and 30% by volume from the previous year. Chinese buyers have been heavily

influenced by regulations and geopolitical events in recent years, a trend that is likely to continue going forward. This is particularly true as it remains to be seen how the new US Biden administration will approach trade ties with China. Regardless of these uncertainties and challenges, the US was China's top outbound target market in both 2019 and 2020.

### Europe: Deals remain domestic

Dealmaking in Europe remained flat in volume terms (31% in both 2019 and 2020) while value posted a short but not insignificant increase from 21% to 25%. Given restrictions limiting international travel, the majority of M&A was conducted within domestic markets or immediately neighbouring jurisdictions in some cases.

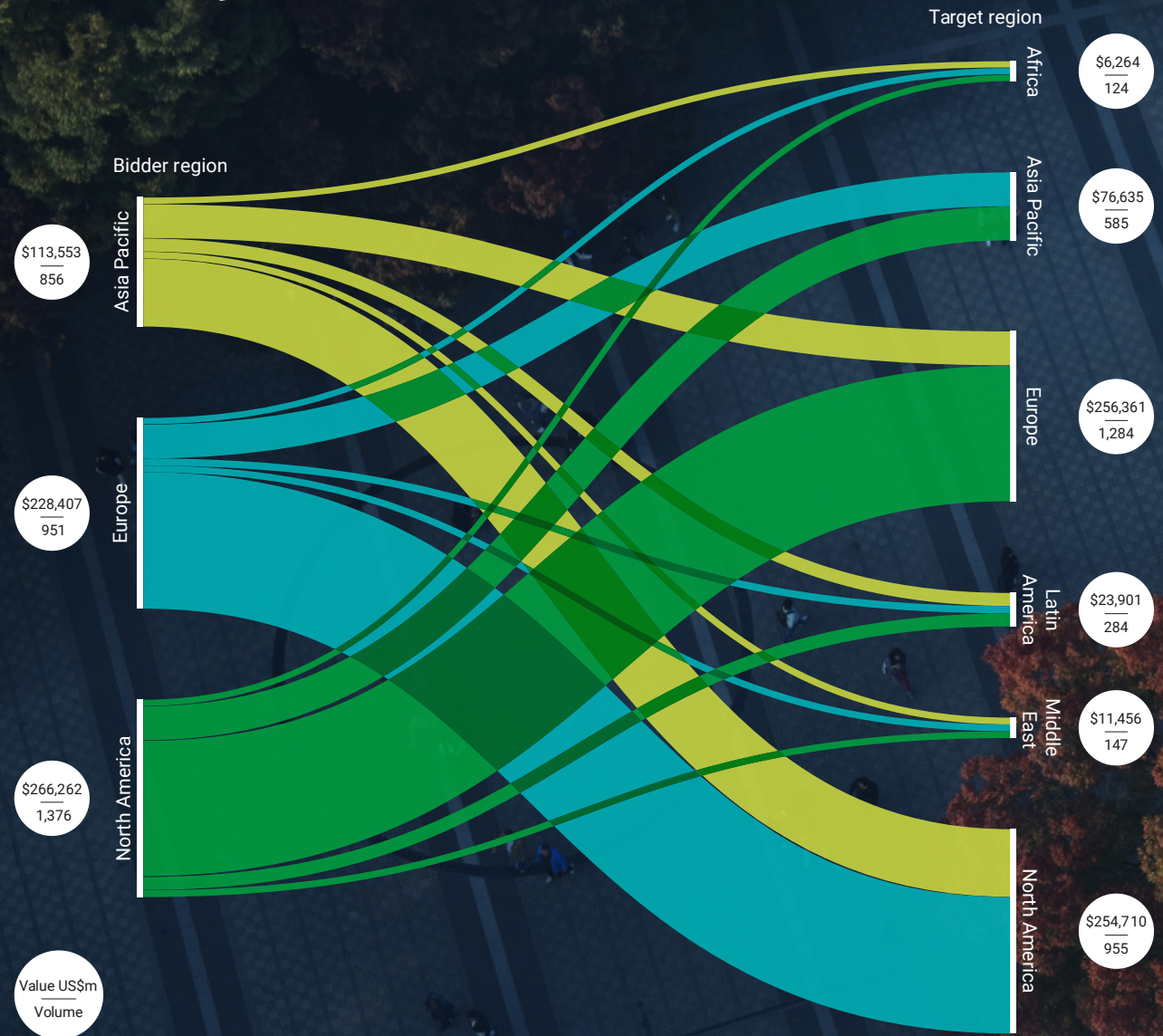


Foreign investment into Europe hit its lowest since 2015, according to Mergermarket intelligence. However, as vaccines are rolled out, borders will begin to reopen fully in 2021 leading to a surge in pent-up M&A.

Despite these restrictions, private equity firms remained active throughout 2020, accounting for a large share of overall European M&A. This trend could continue through 2021, as sponsors continue to put record levels of dry powder to work.

The impact of Brexit will inevitably weigh heavy on dealmakers. While the EU and UK have avoided a potentially chaotic no-deal scenario, dealmakers are cautiously optimistic of what this and other geopolitical challenges may bring in the year ahead.

## Global cross-regional deal flow 2020







TMT has been on the rise in recent years but 2020 really gave the sector a chance to shine. Businesses who embraced technology typically performed better than those who didn't and added a level of resilience, and tech businesses are easier to do due diligence on compared to traditional asset-heavy businesses, as you can remote inspect software and functionality.

## Sector watch: TMT steals the show

Tech continues to dominate, with deals magnified by e-commerce and the growing need for solutions to enable remote work within all industries.

Tech remains a top priority for corporate and private equity buyers, with COVID-19 exacerbating the drive to digitalise products and services. In 2020, TMT accounted for 31% of global M&A value (US\$1.1tn) and 36% of volume (11,598 deals).

Even as borders remained closed and travel restricted, tech deals presented a compelling case which saw cross-border deal values increase 20% in 2020 (US\$298.8bn) from the year prior (US\$248bn). Notably, however, cross-border volumes declined, although while there have been fewer deals, the drop was less pronounced than in other sectors.

### Tech: Infinite possibilities

Indeed, tech and software assets with proven resilience to the pandemic have created intense competition in this space, driving prices to new records. Given the trend in working from home and e-commerce, software deals have been keenly contested and attracted high premiums, according to Mergermarket intelligence.

Equally, tech continues to drive dealmaking for its impact and application in more traditional sectors, with growing excitement around food tech and advances in industrialisation. Innovation in supply chains, warehouses and virtual offices, alongside advances in smart buildings and cloud computing are all at the forefront of digital

transformations across industries. In the year ahead, additional trends and opportunity areas for dealmakers may involve:

- Industrial robot automation, as advances in technology and AI improves and becomes less expensive. COVID-19 may be accelerating acceptance in this field as the explosion in ecommerce puts pressure on supply chains, making robots in warehouses and fulfilment centres a necessity
- Smarter and safer buildings, as the global pandemic raises awareness of the need for traffic controls, upgraded ventilation systems and buildings designed with social distancing in mind
- Cybersecurity getting greater attention, as recent hacks and increasing reliance on the cloud highlight the need to improve existing data security
- Cloud adoption across all industries and businesses, as the cloud shifts from a nice-to-have option to a necessity in 2021. The need for greater storage and infrastructure is forcing many companies to undergo digital transformations sooner than planned in order to survive in an increasingly complex and fast-paced world



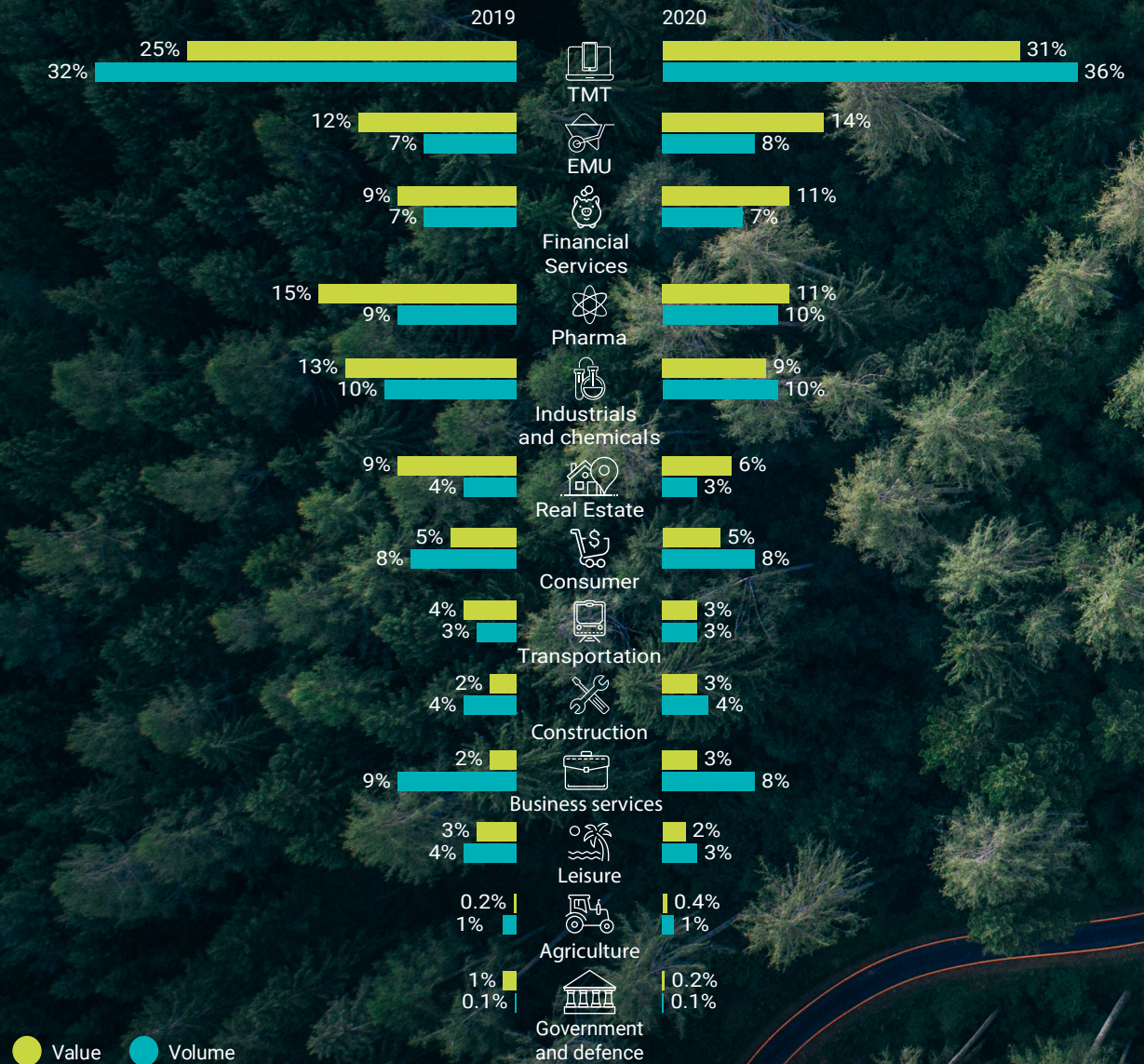
## Energy: Changing winds

Energy, mining and utilities M&A accounted for 14% of value and 8% in volume, far less than tech but following a similar trend where values increased from the year before, rising 4% to US\$503bn. According to Mergermarket intelligence, the global pandemic has been a catalyst speeding up tectonic shifts in the energy and natural resources landscape. Oil and gas deals were down but certainly, however, changes in consumption that slashed demand for crude oil and natural gas in 2020 are creating opportunities to move away from hydrocarbons. Indeed, COVID-19 may be accelerating a shift to carbon-free power and is set to drive energy dealmaking in 2021.

## Pharmaceuticals: Strong international interest

Pharmaceuticals, medical and biotech saw high levels of interest, accounting for 11% of values and 10% of volume. Indeed, the sector has become increasingly popular as the global pandemic takes its toll on populations and puts the spotlight on the need for greater medical care and infrastructure. Implementation of tech solutions to improve existing health infrastructure has also become a trend and one likely to continue into the near-term.

## Global M&A: Sector breakdown (2019–20)







# Private equity spotlight

Private equity scales new heights, closing out 2020 with one of the highest years since 2007.

After plummeting to some of the lowest levels on record, private equity sponsors fought their way back to close the year at a new high of US\$820bn. While this was only a 0.44% increase from 2019 (US\$817bn), it did defy overall global M&A decreases and continues an ongoing trend of increasing deal value since 2016 (US\$711.8bn).

Sponsored deals accounted for an impressive 23% of total global M&A deal value in 2020. This was a slight but not insignificant increase from its 21% share in 2019.

While there was a brief pause in private equity-led dealmaking immediately following the COVID-19 outbreak in early 2020, sponsors were some of the first movers as economies began to reopen and show signs of recovery. Indeed, after dropping 39% in value and 35% in volume from Q1 to Q2, sponsors led a charge of investment that saw increases of 201% by value and 46% by volume through Q3.

For the second half of 2020, private equity deals increased 121% from US\$255.5bn in H1 to US\$565.4bn in H2. Deal volume likewise increased 24% from 1,049 deals to 1,306.

On an annual basis, however, deal volumes tell a different story, dropping 17% (from 2,850 deals in 2019 to 2,355 in 2020) and accounting for only 7% of global deal volume totals. In 2019, they accounted for 8% of global totals.

## Sector focus: Tech

Tech and innovation continue to be a driving force behind private equity firms as they search for investment opportunities. TMT remained the most active sector for sponsor-led investments, reaching US\$296.9bn through 733 deals and accounting for 36% of deal values and 31% of volumes among private equity firms. The importance of digital assets and tech that enable remote work was enhanced by the pandemic as vast populations globally were prevented from widespread travel.

Such is private equity's obsession with tech that the next highest sector (energy, mining and utilities) saw less than half of TMT's investment value (US\$123bn) and less than a quarter of its total deals (162). Investments into the industrials and chemicals industry and consumer sector saw higher deal volumes, however deal values were much smaller.

## Regional view: Asia Pacific uptick

Private equity activity was highest in North America with US\$383bn, accounting for close to half (47%) of global sponsor-led deal values, followed by Europe at US\$250bn (30% of values). In volume terms, both accounted for roughly 42% of deals.



While much lower in value (20%) totals, Asia Pacific saw one of the largest increases in investment from the previous year. Regional totals of US\$106bn in 2019 gave way to US\$161.7bn in 2020, an increase of 53%. Comparatively, European investment only increased 11% and North American investment actually decreased 16%.

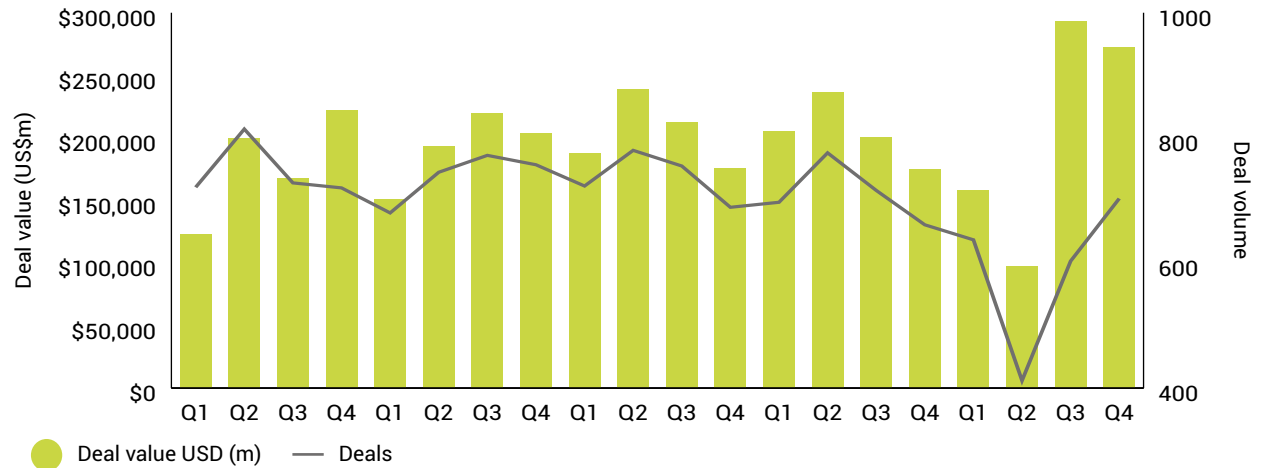
For volume, Asia Pacific registered an 8% decrease, from 336 deals in 2019 to 310 in 2020. Similar figures for North America and Europe also show declines, although much steeper on an annual basis.

While the Middle East saw an even sharper increase in values compared to Asia Pacific, comparatively, the underlying figures are much lower: US\$10bn in 2019 and US\$18bn in 2020.

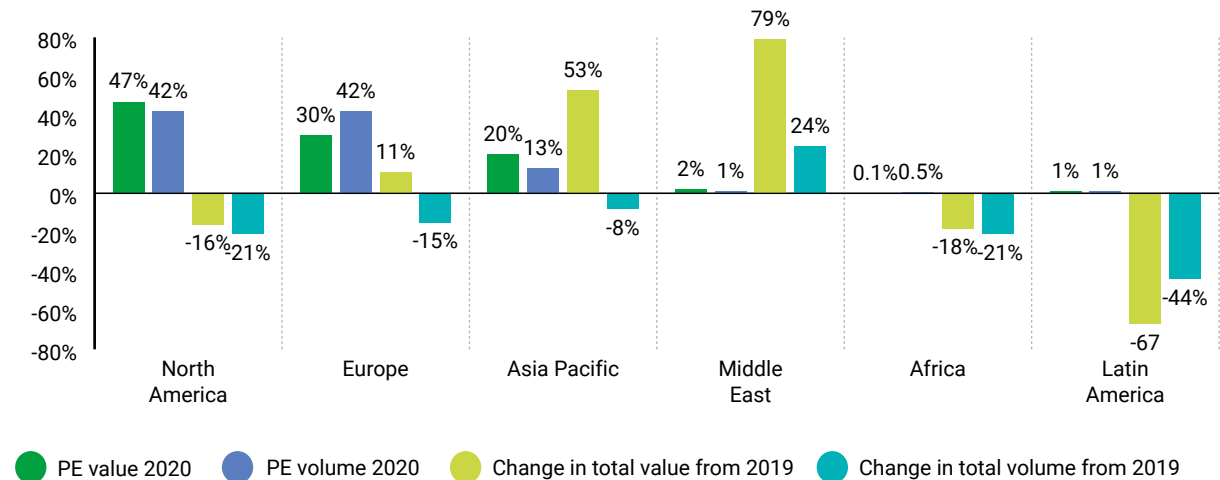


It's something of a perfect storm for private equity. They're cashed up and able to focus on deals with less competition from internationals completing cross-border deals. Private equity is well placed to capture those who are looking for not just financial support but a partner to weather the challenges and aid succession.

### Global private equity deals 2020



### Global private equity: Target geographies and total value/volume % change from 2019





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