

M&A

Recent trends and general considerations

Agenda

1

Current state of M&A,
recent trends

2

M&A through the
business cycle

3

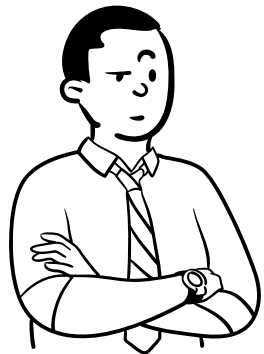
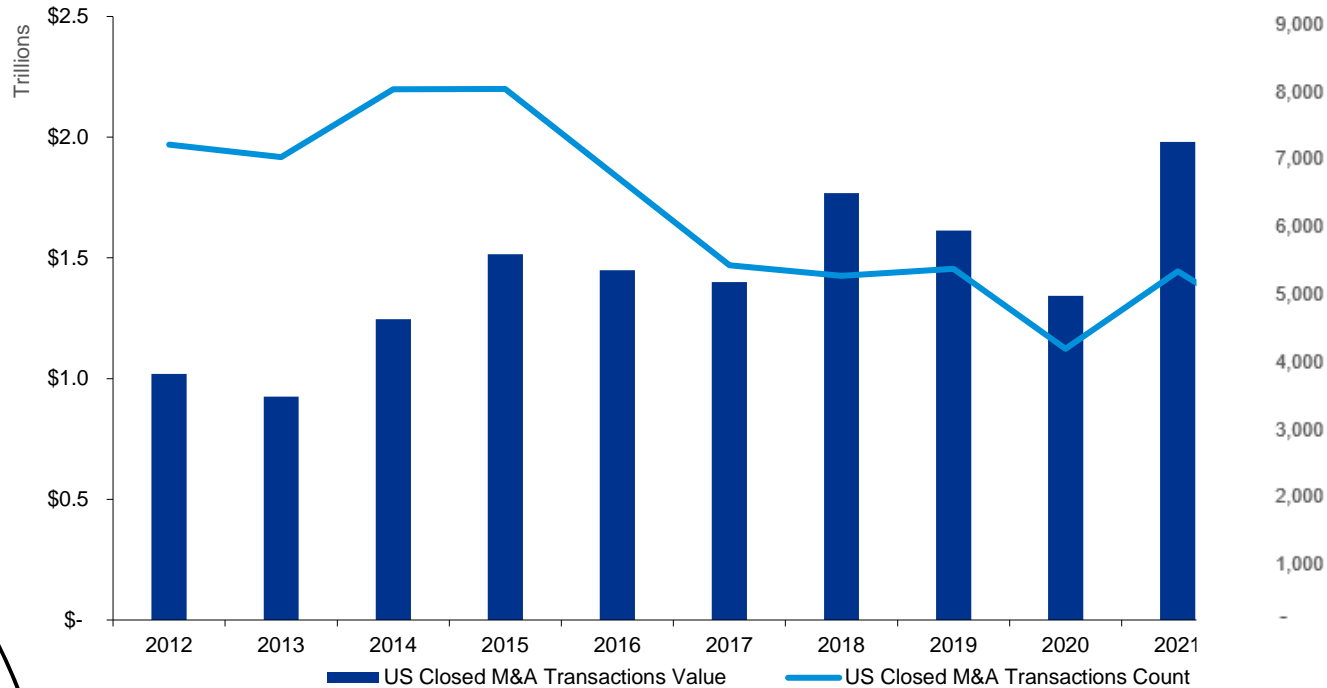
Valuation
considerations in M&A

1

Recent M&A Trends

M&A trends through 2021

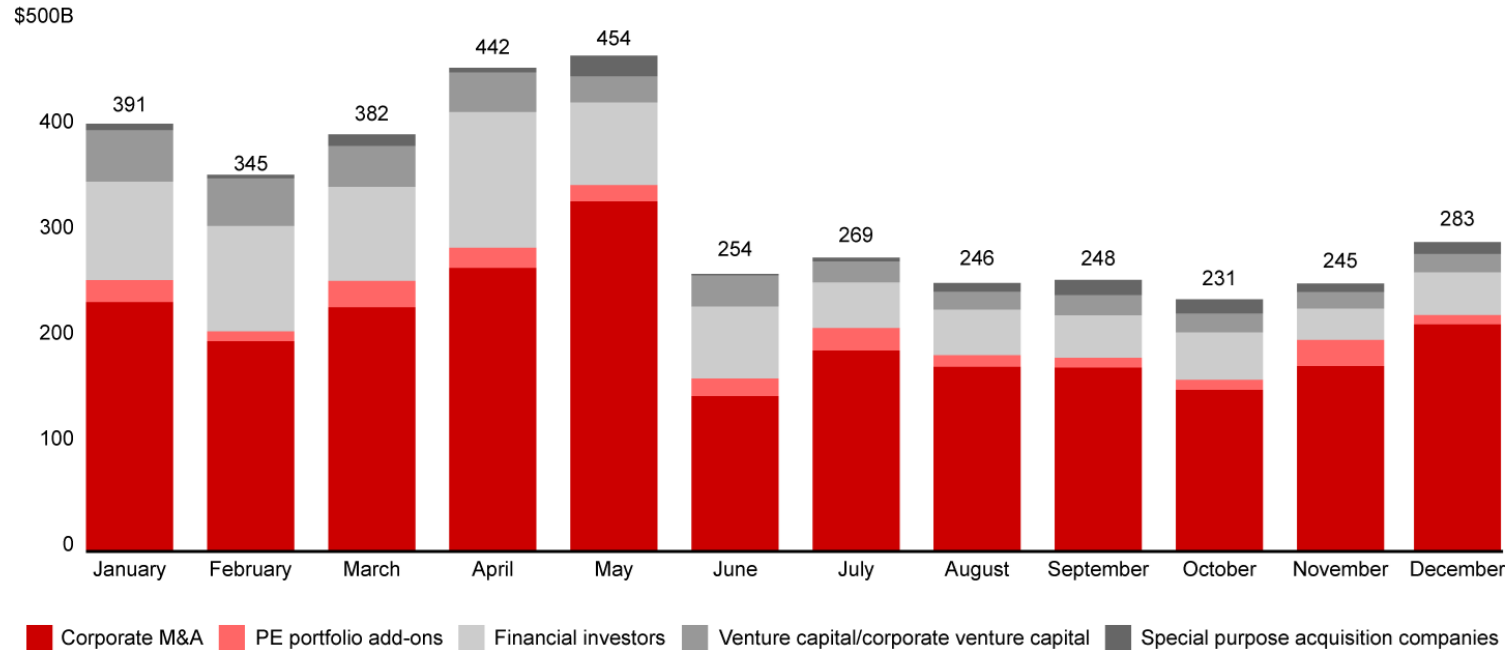
US Annual Closed M&A Transactions Value & Count



Broadly speaking, annual transaction value has increased steadily from 2012 through 2019. In 2021, the post pandemic Global M&A market rebounded. M&A volumes topped 5 trillion for the first time ever, comfortably eclipsing the previous record of \$4.55 trillion set in 2007.

2022 disruption

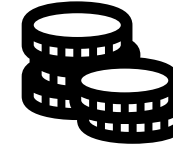
2022 M&A deal market value (in billions of US dollars)



The 2021 M&A boom continued through the first half of 2022, however, a big turning point occurred on June 16, 2022, when an interest rate hike by the US Federal Reserve Bank, combined with heightened macro-economic uncertainty put a chill on the deal market.

Notes: Strategic deals include corporate M&A and PE portfolio add-ons; categorizations based on deal technique, industry, and acquirer business description
 Source: Dealogic

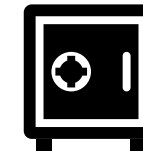
State of M&A 2022 decline – major factors



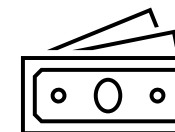
Inflation issues arose from a multitude of geopolitical issues including but not limited to: COVID-19 and supply chain issues; stimulus money; war and foreign conflict; and sanctions.



Interest rates rose in 2022 as the Federal Reserve responds to US inflation peak.

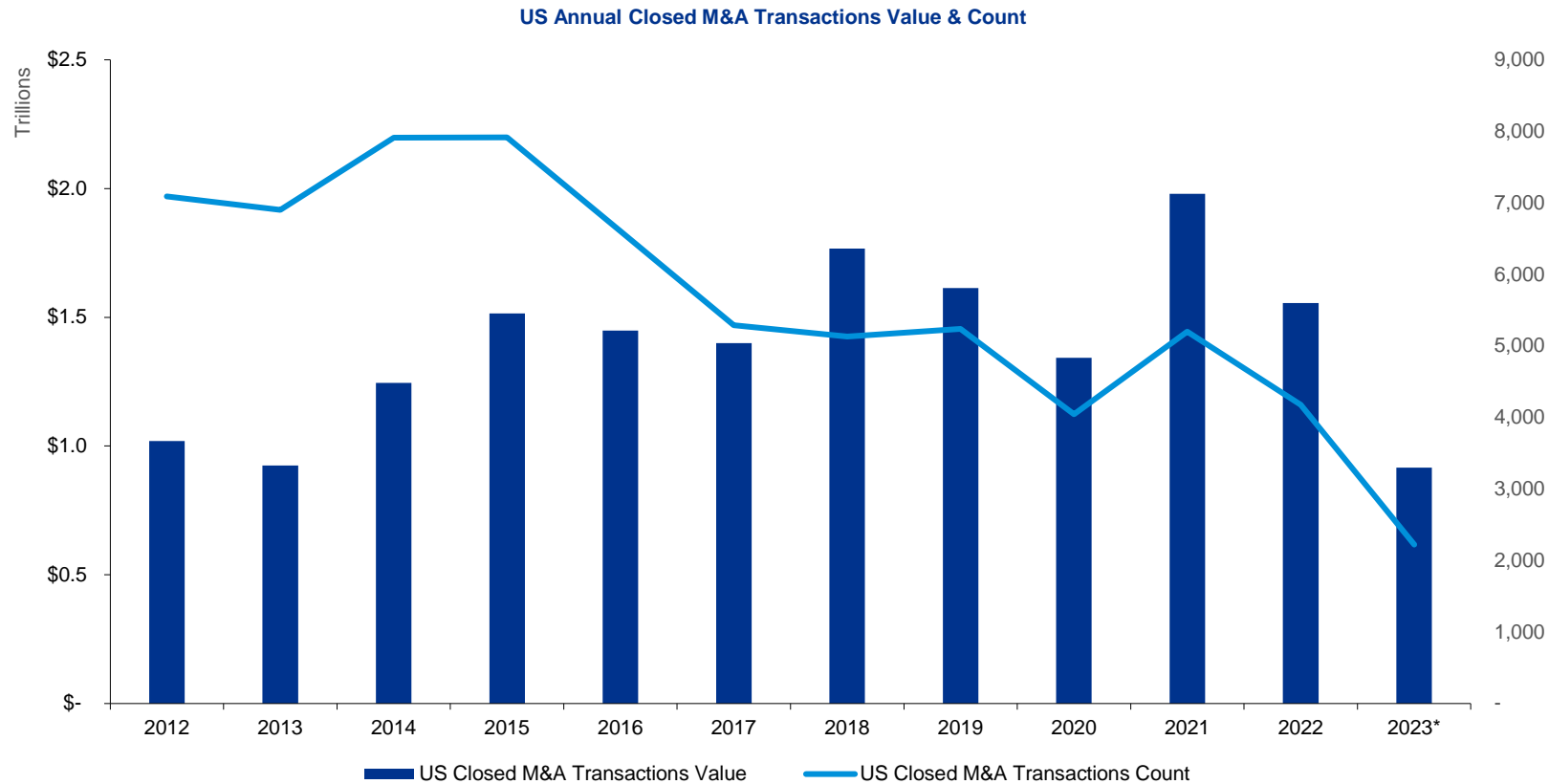


Capital availability decreased as interest rates rose, most affecting financial investors reliant on debt for financing deals.



Industrial policy changes during 2022 for transformational transactions increased regulatory scrutiny and iced deals from continuing.

M&A activity—trends into Q1 2023^{1,2}

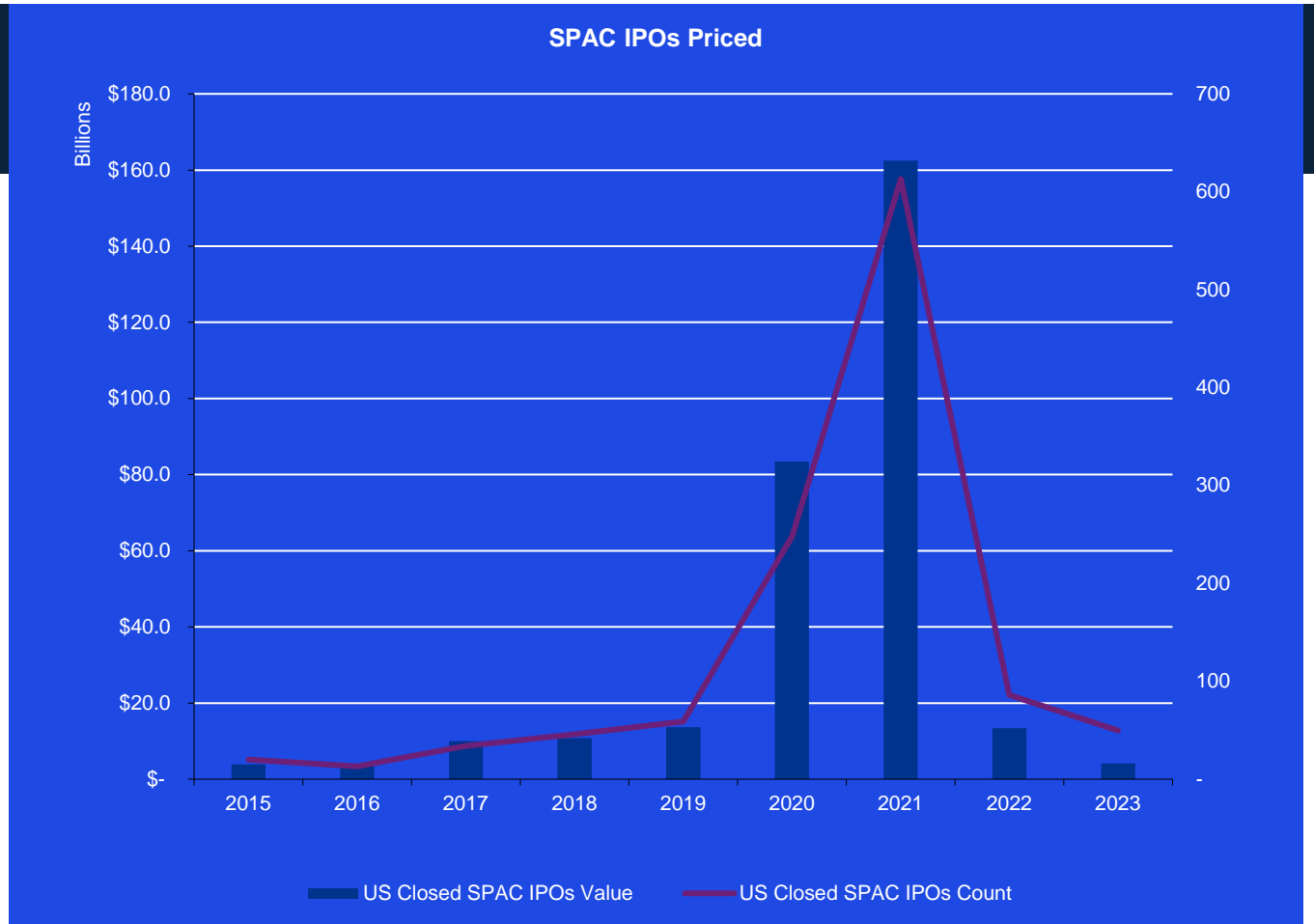


Overall, volume is slowing with the last four months reflecting consistent declines in transaction count. 2022 volumes and count are down on average compared to 2021 and the first two months of 2023 are showing continued declines.

¹Based on closed M&A transactions as reported by S&P Capital IQ. Excludes transactions with no disclosed value. Values and counts on this slide a slightly lower than prior slide which includes asset and branch acquisitions.

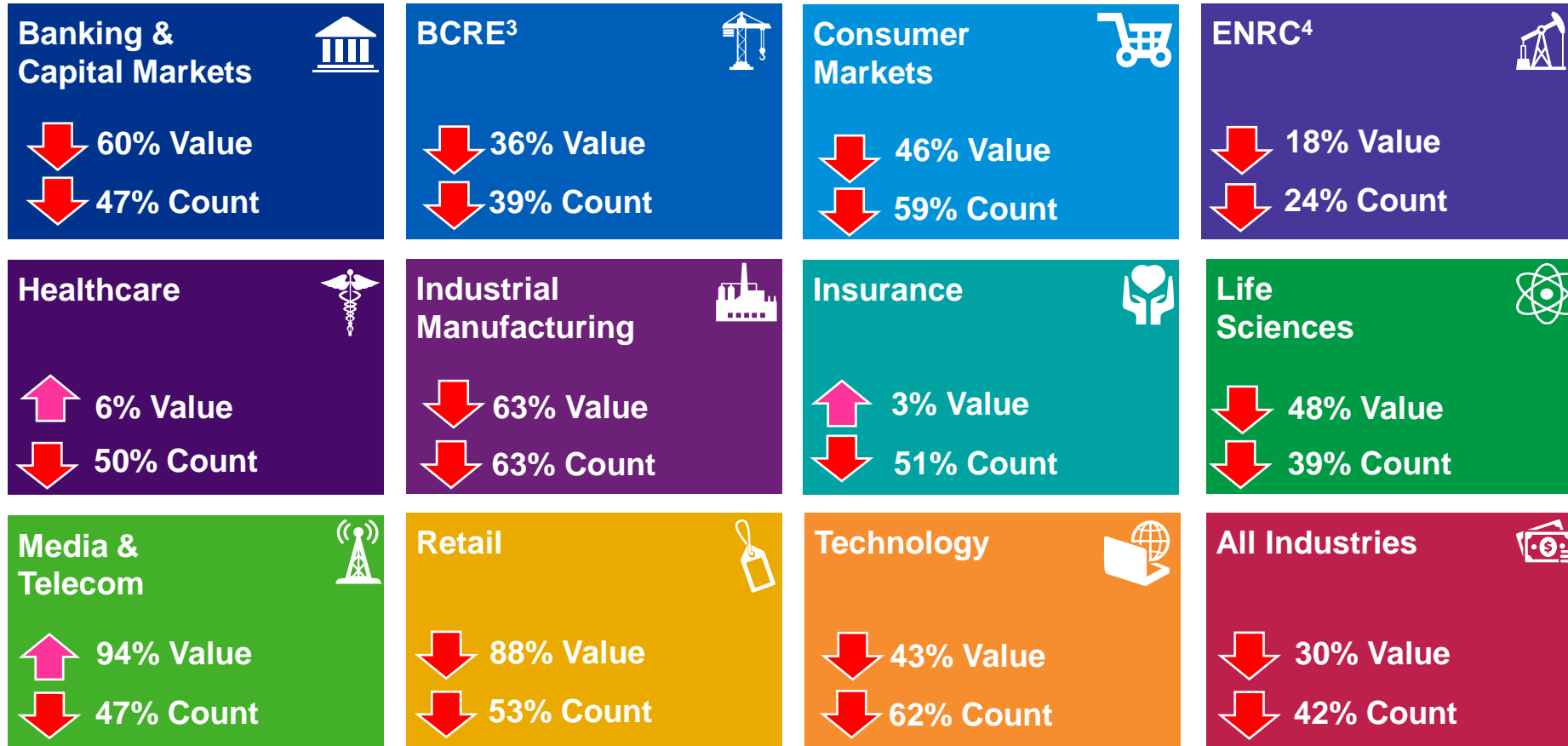
²Transaction value is defined by S&P Capital IQ as Consideration to Shareholders plus Other Consideration plus Total Earnout/Contingent Payments plus Total Rights/Warrants/Options plus Net Assumed Liabilities plus Cash and Short Term Investments.

SPAC trends in the marketplace¹



¹Based on SPAC data sourced from SPAC Research. 2023 Data is annualized.

Trailing 12 month M&A transaction growth by industry^{1,2}



¹Based on closed M&A transactions as reported by S&P Capital IQ. Statistics are based on trailing twelve months (TTM) data as of 2/28/2023 compared to TTM data as of 2/28/2022.

²Transaction value is defined by S&P Capital IQ as Consideration to Shareholders plus Other Consideration plus Total Earnout/Contingent Payments plus Total Rights/Warrants/Options plus Net Assumed Liabilities plus Cash and Short Term Investments.

³BCRE: Building, Construction, and Real Estate

⁴ENRC: Energy, Natural Resources, and Chemicals

State of M&A looking ahead in 2023

1). Well-capitalized companies making acquisitions in their core business. Company balance sheets are still relatively strong compared to previous recessionary periods, thus there is anticipation for large corporates (especially healthcare, technology, and energy industries) to lead the way to greater activity.

2). Financial sponsors, which are holding record amounts of capital, deploying it in acquisitions. Global financial sponsors currently have more equity capital available than in prior years. Once the financing market stabilizes, we can expect to see a number of private equity firms bring companies to market.

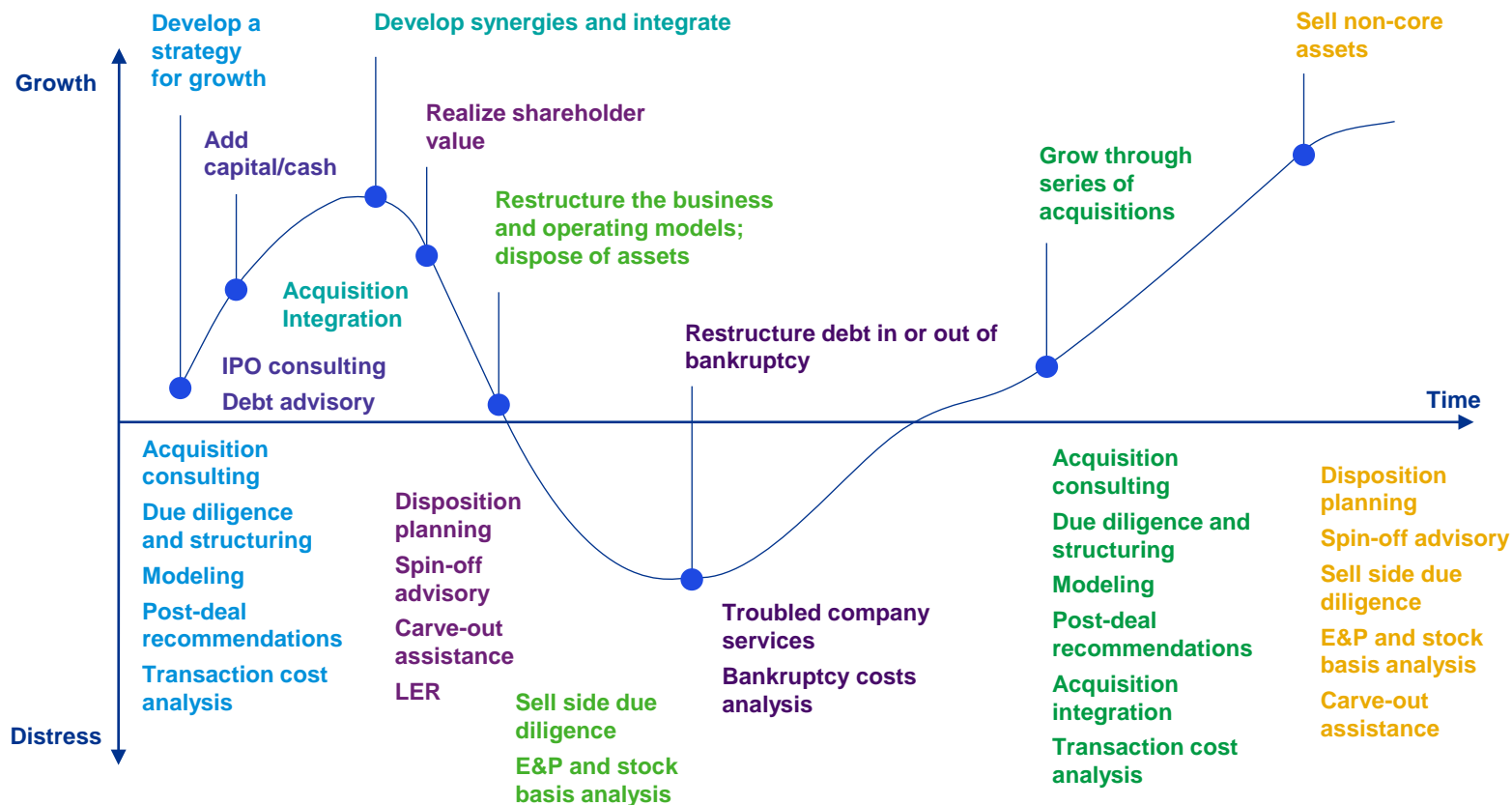
3). Uneven performance among companies stoking shareholder activism. The number of activism campaigns at U.S. companies in 2022 exceeded 2021 levels by approximately 14%, with M&A and improvement operations as the most common activist demands last year, each occurring in 49% of campaigns.

4). Cross Border M&A making a comeback. Companies around the world seeking to fortify global supply chains coupled with cooling global tensions will lead to an increase in investment in international markets.

2

M&A throughout
the business
cycle

M&A throughout the business cycle




M&A Tax services applicable throughout all stages of business cycle
 Section 382 analysis; tax compliance assistance; financial statement audit assistance; general Sub C and consolidated returns consulting; partnership planning and modeling

3

Valuation+
modeling
considerations

Valuation and modeling in the deal process




Deal Generation

M&A Strategy

- Market Segment Identification
- Market Segment Evaluation / Prioritization
- Target Identification
- Target Evaluation / Prioritization
- Investment Thesis Development
- Pre-approach Synergy Due Diligence
- Active portfolio management

Business modeling

- Deal model & valuation model builds
- Client model accuracy assessment
- Cash flow forecast development
- Value driver assessment and insights



Due Diligence – Financial and Tax

Financial Due Diligence


- Top line analytics
- Cost base analysis
- Non-recurring items
- Pro forma considerations
- Working capital / AR profile
- Deferred revenue / backlog
- Net debt and contingencies

Accounting and finance

- Key accounting policies
- Financial reporting (carve-out financial statements, pro-forma financial statements, MD&A, and discontinued operations/HFS reporting)
- Finance integration/separation - operations, systems and processes
- Regulatory requirements
- Preliminary PPA valuation
- Chart of account mapping

Tax Due Diligence

- Tax exposures
- Deal structuring alternatives



Due Diligence – Commercial and Operational

Commercial Due Diligence

- Market Attractiveness/Relative Offer Position
- Competitive Landscape
- Sources of growth, profitability
- Management business plan evaluation/validation
- Assess business value creation, capture, defense mechanisms

Operational Due Diligence

- EBITDA Improvement
- Synergy Identification and standalone costs
- Manufacturing 4-wall analysis

HR Due Diligence

- HR benefits and compensation impact on valuation
- Assumed liabilities and hidden items
- Retention considerations

IT Due Diligence

- IT organization and spend profile
- IT security, cyber and compliance

After signing the PPA

The new draft AICPA Business Combination + Valuation Guide addresses a number of accounting issues related to business combinations in the following chapters:



Chapter 1: Business Combinations – Accounting Overview



Chapter 2: Identifying Business Combination Transactions



Chapter 3: Identifying the Acquirer



Chapter 4: Determining the Acquisition Date



Chapter 5: Measuring the Consideration Transferred



Chapter 6: Recognize and Measure the Identifiable Assets Acquired and Liabilities Assumed, and any Noncontrolling Interests in the Acquiree



Chapter 7: Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase



Chapter 8: Other Accounting Topics

Valuation Chapters

The guide also discusses a number of valuation topics related to business combinations in the following chapters:



Chapter 9: Valuation Considerations in a Business Combination



Chapter 10: Internal Rate of Return Analysis



Chapter 11: Selecting Valuation Approaches and Techniques for Acquired Intangible Assets

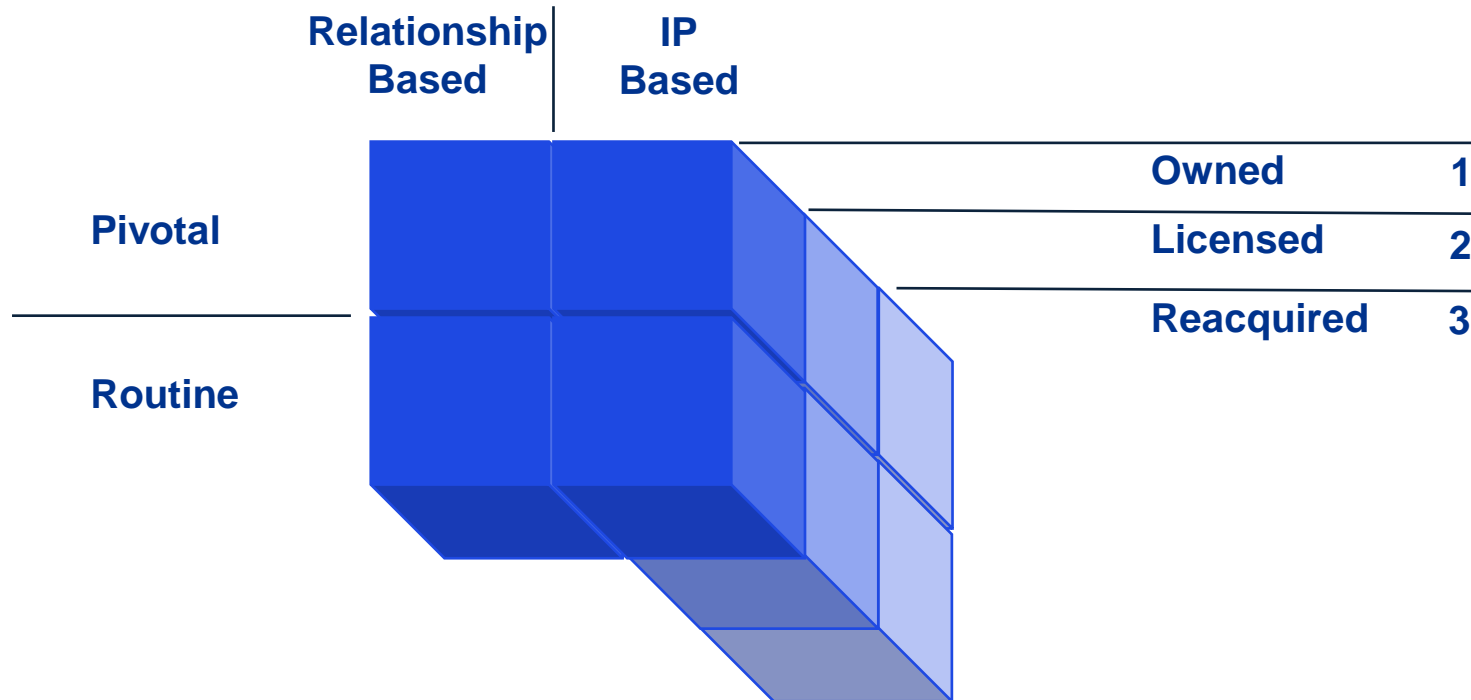


Chapter 12: Valuation Approaches and Techniques



Chapter 13: Measuring Fair Value of Identifiable Assets Acquired and Liabilities Assumed

Types of Intangible Assets



Source: AICPA Guide, section 11.11

Pivotal vs Routine Intangible Assets

Pivotal Intangible Asset

- Creates a significant amount of the excess profit generated along the business unit's value chain
- Their functions are not available from alternative sources since they are unique or scarce assets
- It provides a distinct competitive advantage that drive the excess returns of the business unit
- E.g. Unique and innovative IP in the technology industry, intellectual capital of a consulting firm

Routine Intangible Asset

- Secondary elements of the operations
- They provide an economic benefit in the form of a routine profit (when the routine asset is relationship-based)
- Provide functionality that can be accessed from a third party in an arms' length transaction or recreated internally, which drives down excess returns
- Assets that are not unique or scarce
- E.g. Internally-used software

Upcoming sessions +
recent thought
leadership

More on M&A



M&A: Preparing for the Deal (Live Virtual)

KPMG Executive Education – 8 CPE



Challenging times

M&A trends in technology, media, and telecom

Q1'23

kpmg.com

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Accounting and valuation considerations for transactions

FINANCIAL REPORTING WEBCAST

11 MAY	3:00 PM EDT	1.0 CPE
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