Capital Markets Strategy

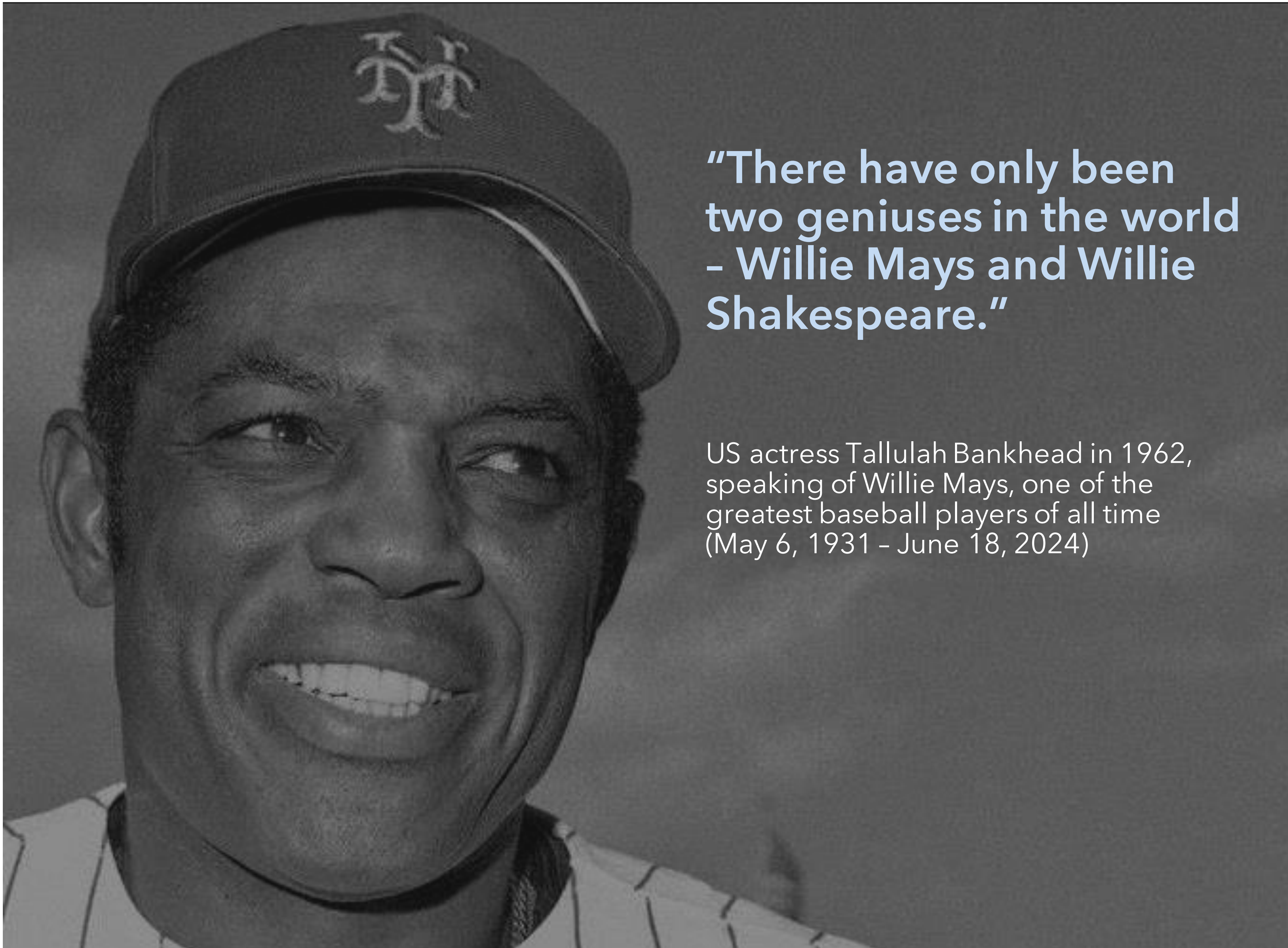
Essential inCights for the C-Suite

MUFG

Early Innings of a Global M&A Recovery

Key Trends in 2024 Deal Making Activity

AUG 2024


"There have only been two geniuses in the world – Willie Mays and Willie Shakespeare."
US actress Tallulah Bankhead in 1962, speaking of Willie Mays, one of the greatest baseball players of all time (May 6, 1931 – June 18, 2024)

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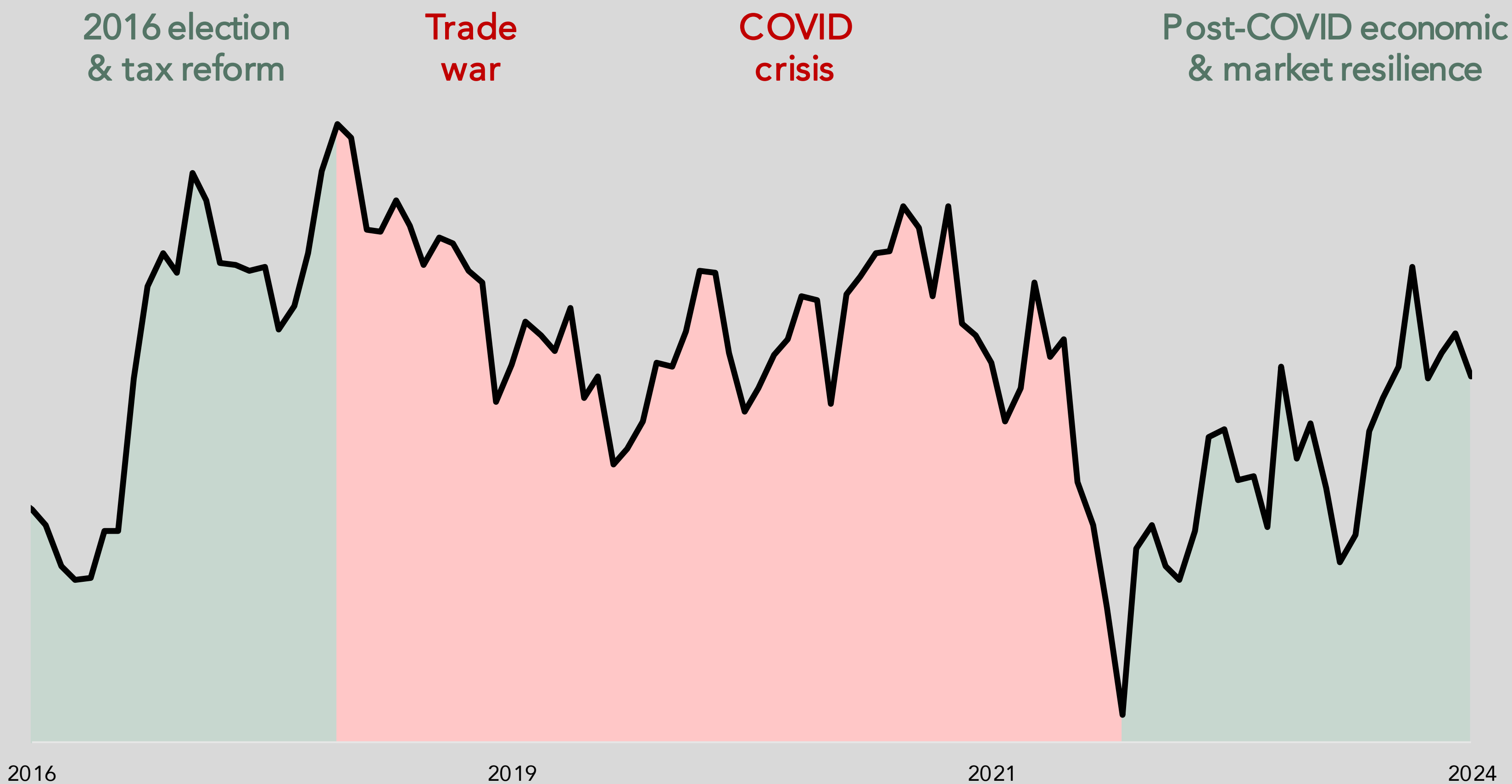
Improved CEO Confidence

Resilient economic data, an S&P 500 earnings recovery, policy easing and robust cash-rich balance sheets have all contributed to improved CEO confidence in the post-COVID period.

CEO confidence index

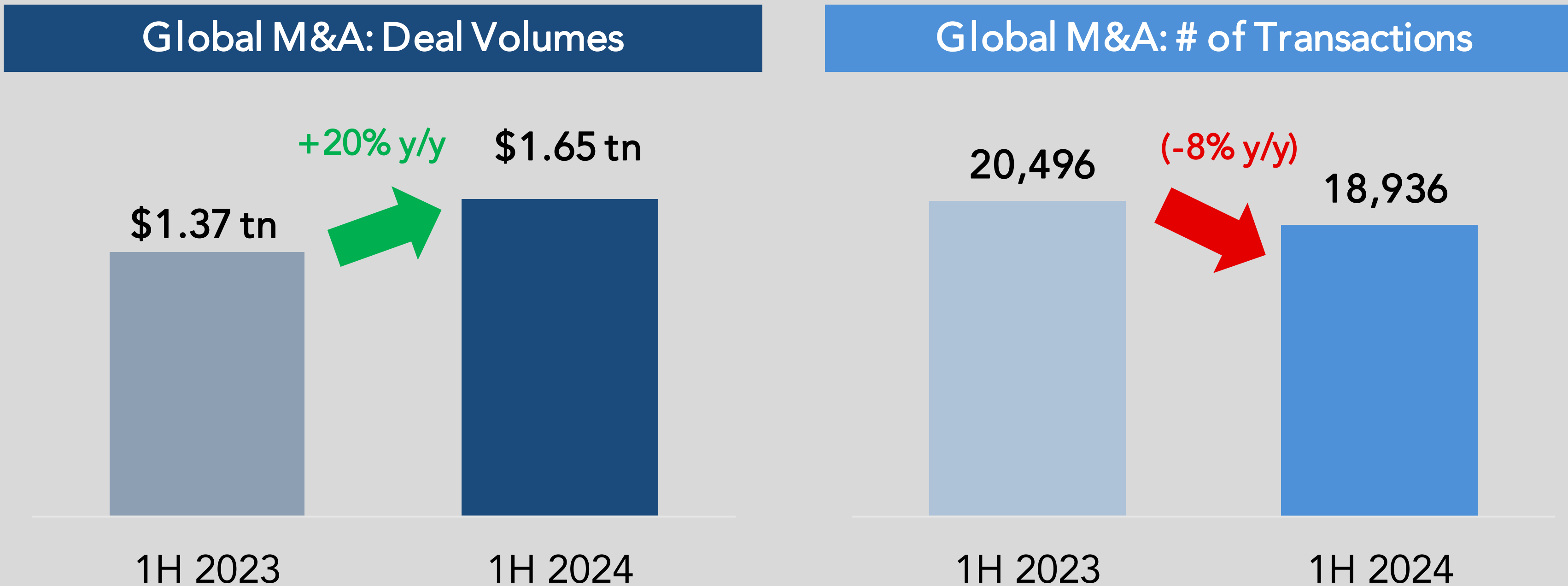


Source: (1) Bloomberg. Data as of August 12, 2024. CEO Confidence Index measures confidence in economy 1 year from now.

Early Innings of Global M&A Recovery

Stronger earnings, higher equities and resurgent financing markets have precipitated a global M&A recovery, albeit one still in its early stages after dampened activity the prior two years. Nonetheless, higher interest rates have dampened sponsor led activity while a tighter global regulatory backdrop has discouraged some deals and prolonged the timetables for others.

Global M&A Deal Activity (1H 2023 & 1H 2024)



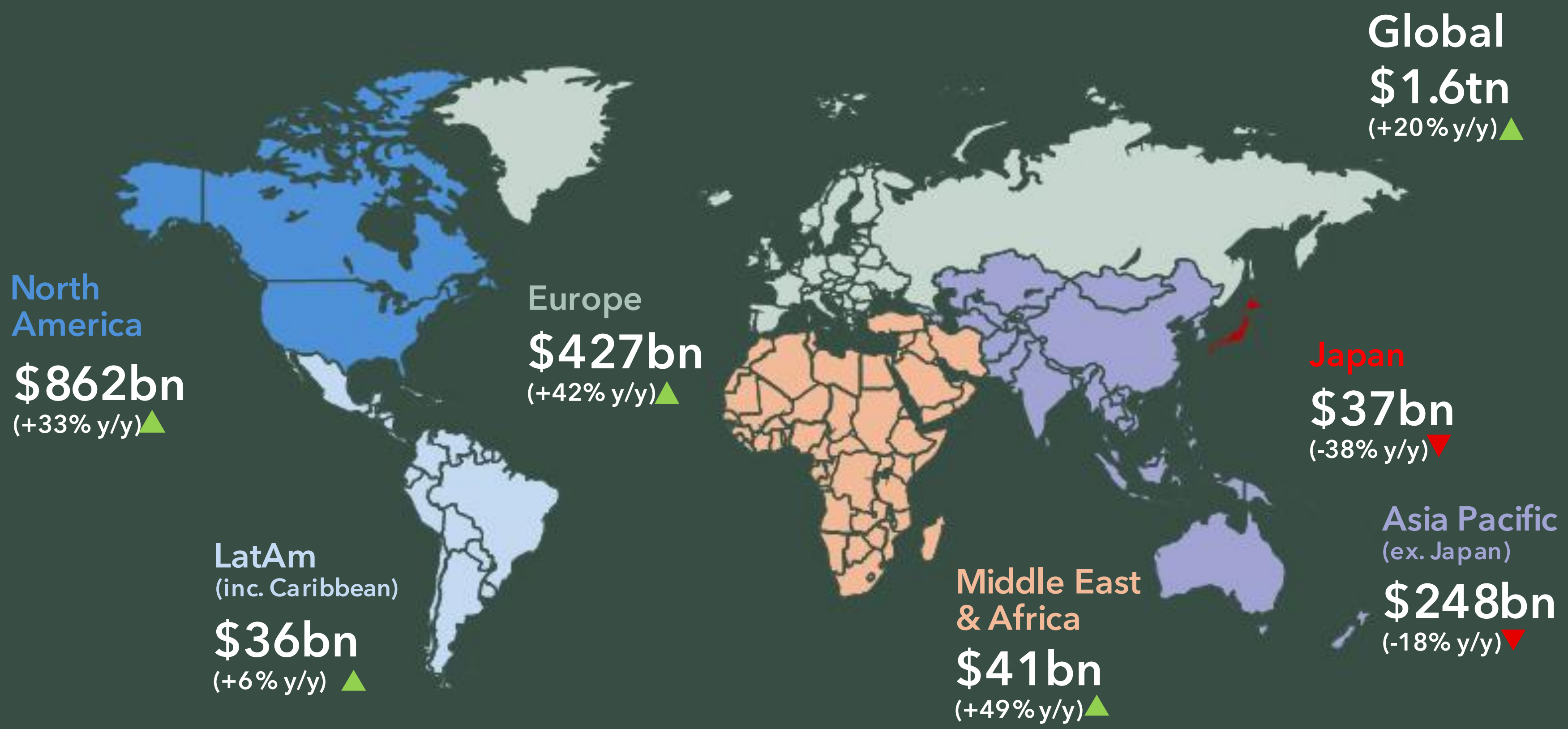
The resurgence of "megadeal" activity in 2024 – both scale and scope transactions – are a sign of the renewed strength in the post-COVID global M&A market.

Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals.

2024 Volumes Rising Across Most Regions

Global M&A activity increased 20% y/y in the 1H 2024 driven by outperformance in North America and Europe. North American activity more than doubled any other region while European activity increased over 40% y/y. Activity in Asia has lagged considerably, due in part to lower inbound and outbound activity from China.

1H 2024 volume and y/y increase (based on target region)



Source: Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Include rank eligible M&A deals. Region is based on target. Asia Pacific includes Australasia, Central Asia and the Caucasus, India subcontinent, North Asia, SE Asia and India subcontinent.

Key Drivers of Global M&A Recovery

Against a resilient though volatile macro backdrop, the global M&A recovery in 2024 has been driven by both scale (synergies) and scope (growth-oriented) transactions.

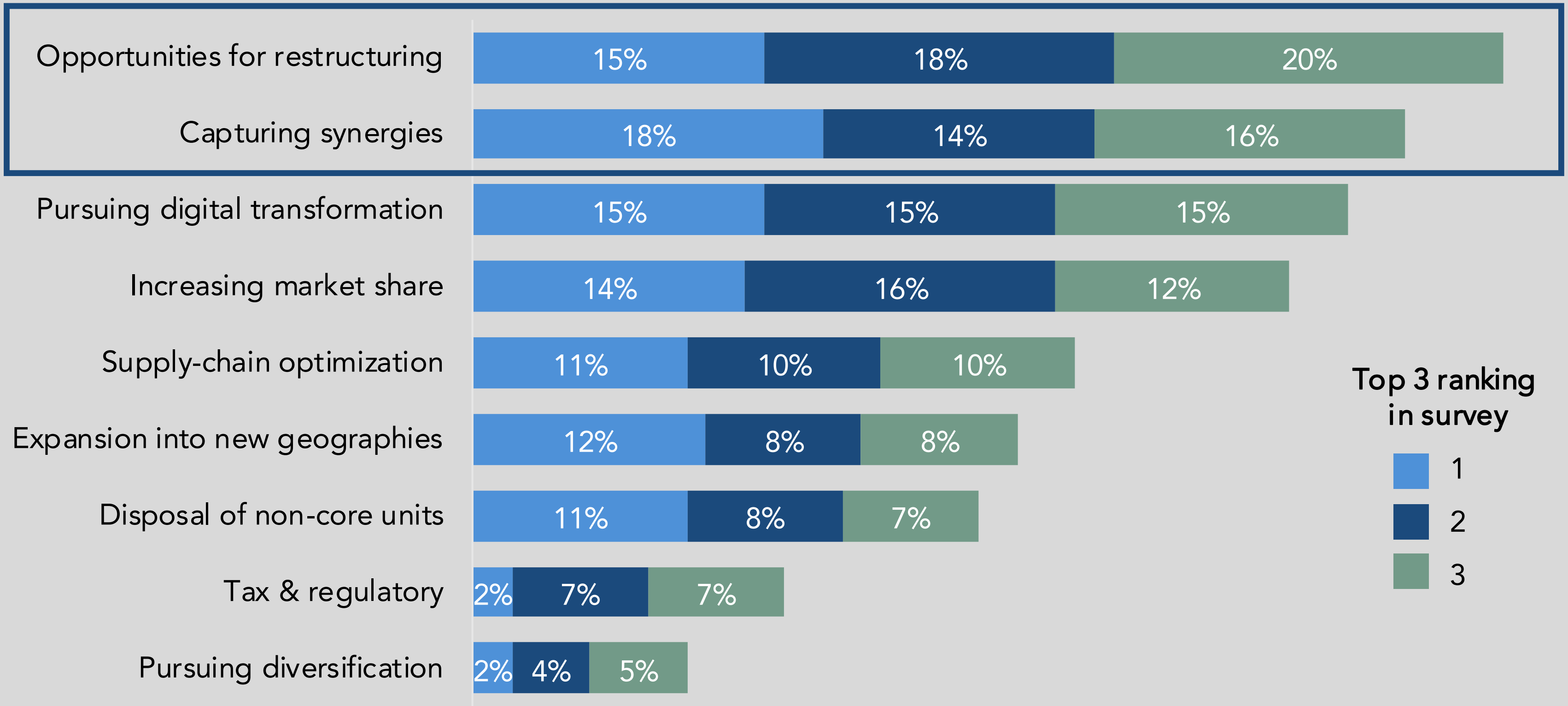
Catalysts for 2024 deal activity

Macro & Market Drivers	Corporate Strategy Drivers
Moderating inflation; policy easing & declining rates	Generate growth > organic alternatives; shareholder activism
Equity market & acquisition currency strength	Strong, cash-rich balance sheets
Converging buyer / seller valuation expectations	Access to technology, innovation (digital, AI, automation)
Abundant global capital; Record PE dry powder ($2.6 tn)	Restructuring; divesting non-core businesses
Resilience & depth of IG financing markets	Capturing synergies; optimizing business; diversification

Restructuring a Key Driver of M&A

Over half of respondents in a recent survey by SS&C and Intralinks identified restructuring and turnaround of distressed businesses as a top three driver of deal activity. More "proactive" strategies around digital transformation, supply-chain optimization and geographic expansion should also drive activity in the months ahead.

Survey: What will be the key drivers of your M&A activity over the next 12 months?

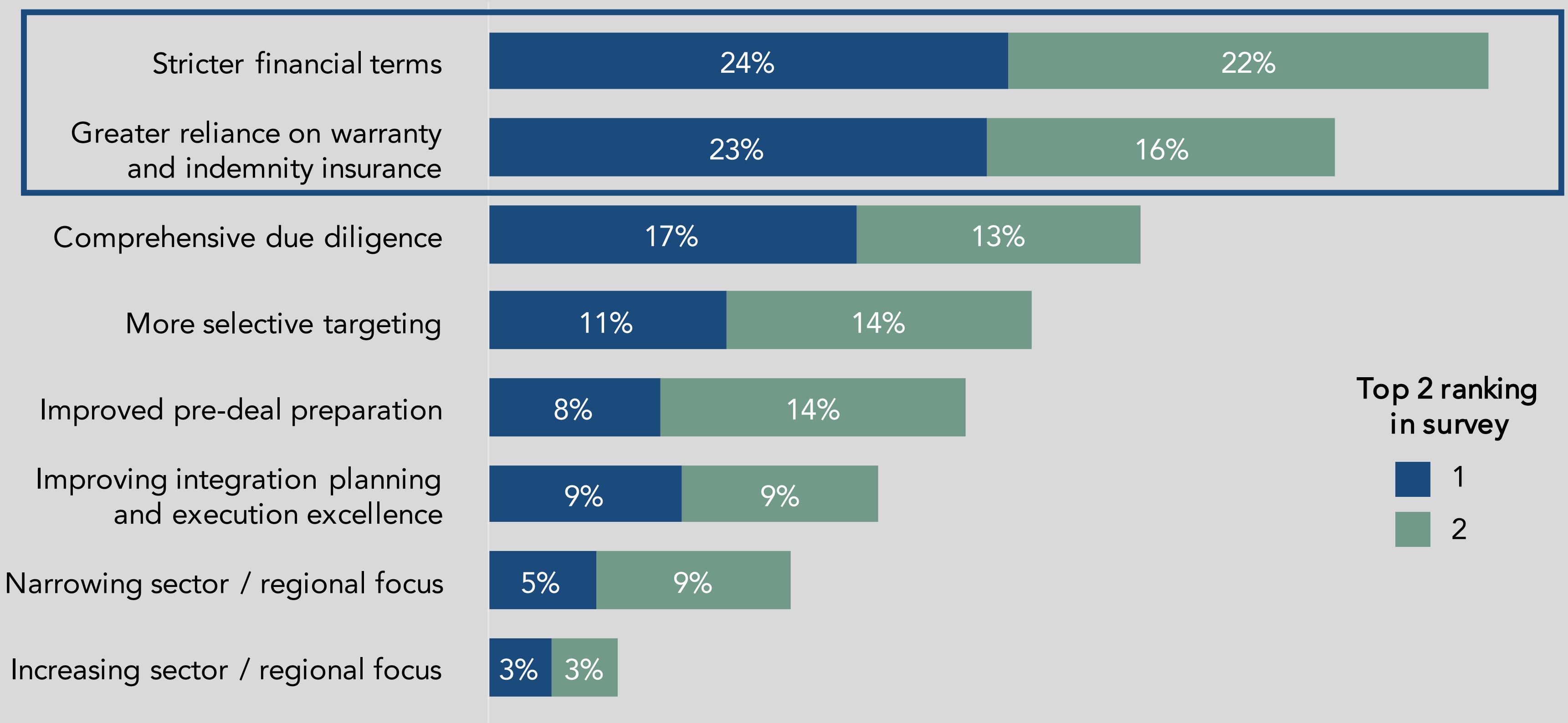


Source: (1) SS&C IntraLinks, "2024 Global M&A Dealmakers Sentiment Report." Survey in Q4 2023 of over 300 M&A dealmakers from 225 corporate and 75 private equity firms. 100 HQ in North America, 75 in EMEA, 75 in APAC and 50 in LATAM. Respondents selected their top three choices and ranked 1-2-3 by order of significance where 1=most significant, etc.

Risk Mitigation Critical to Deal Making

Against a backdrop of tighter deal financing conditions (higher rates, valuation gaps between buyers / sellers), buyers have utilized earn-outs, vendor loan notes and other deferred payment methods to mitigate risks in deal execution. Going forward, companies expect to tighten financial terms and rely on warranty and indemnity insurance for risk mitigation.

Survey: How will companies mitigate M&A risk in the next 12 months?



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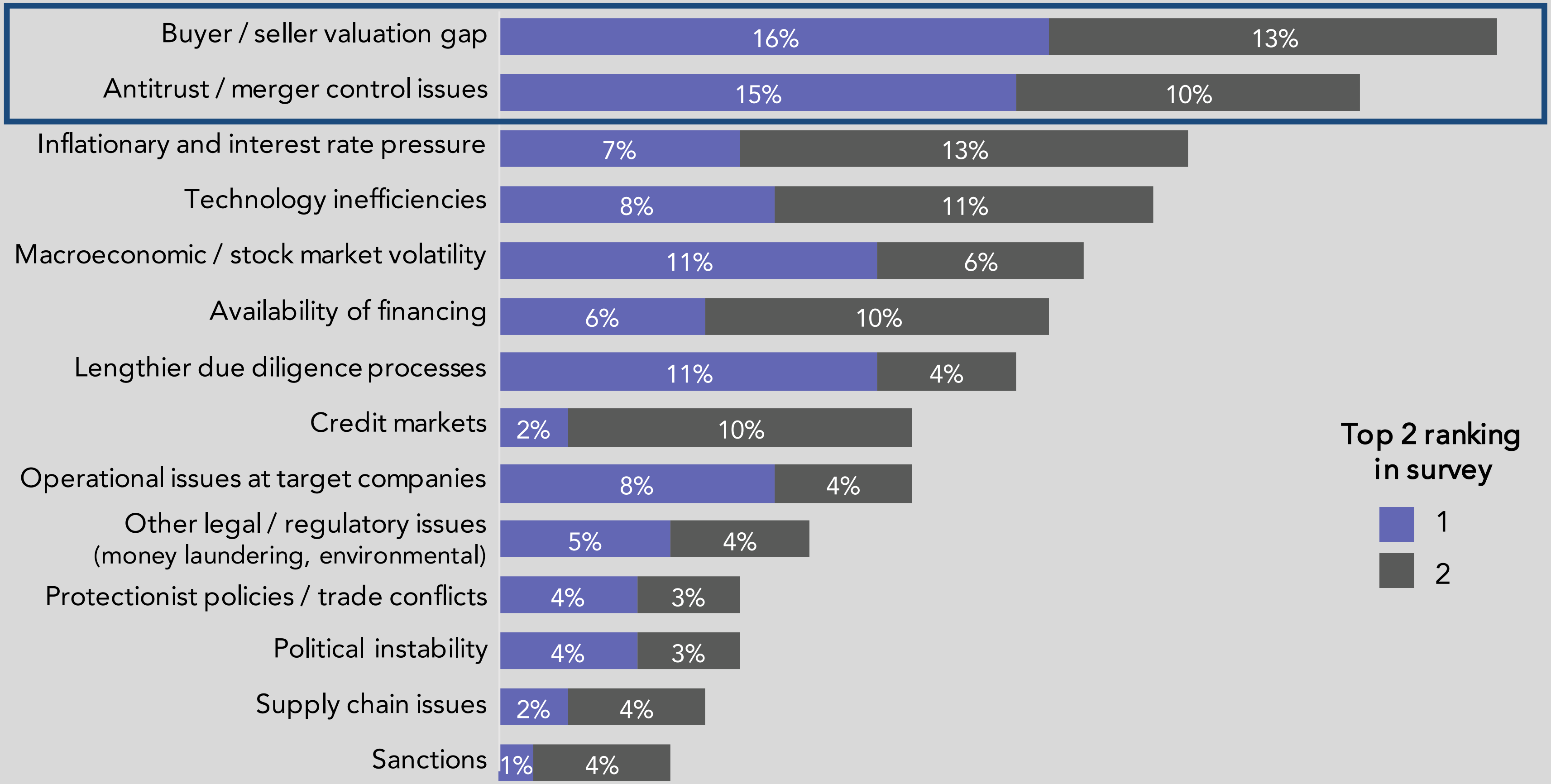
Challenges for M&A in the Year Ahead

Despite numerous economic and market drivers creating tailwinds for deal activity, the M&A recovery is still in a nascent stage. Buyer and seller valuation gaps, shifting antitrust regulations and financial market uncertainty are among the top challenges for dealmakers in the year head.

Survey: What will be the biggest challenges to completing a deal in the next 12 months?



Source: (1) SS&C IntraLinks, "2024 Global M&A Dealmakers Sentiment Report." Survey in Q4 2023 of over 300 M&A dealmakers from 225 corporate and 75 private equity firms. 100 HQ in North America, 75 in EMEA, 75 in APAC and 50 in LATAM. Respondents selected their top two choices and ranked 1-2 by order of significance where 1=most significant, etc.

Key Drivers of M&A Activity

1 Search for Higher, Nonorganic Growth

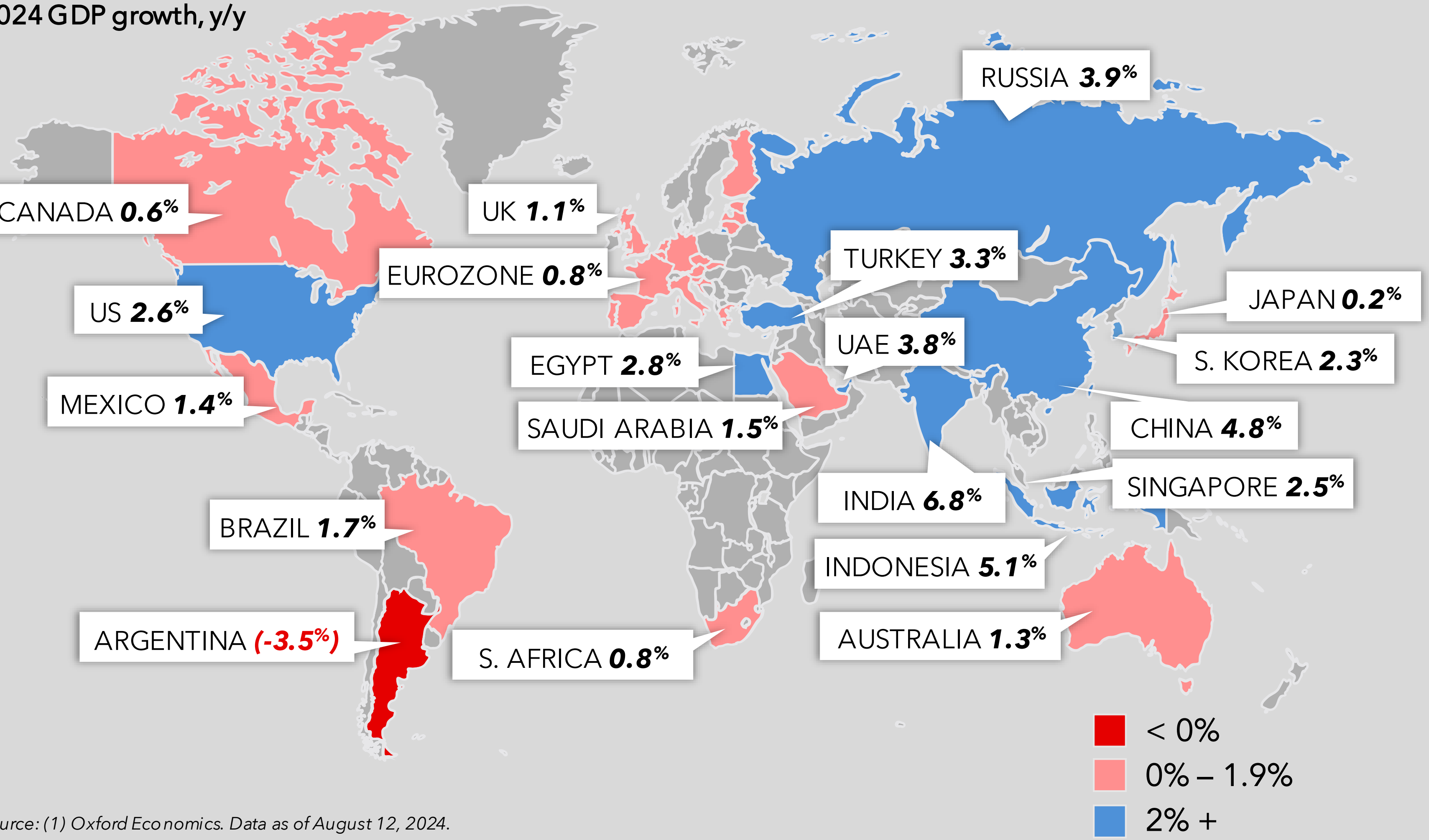
“The problem with doing nothing is not knowing when you’re finished .”

Benjamin Franklin, American Founding Father, political philosopher, statesman and inventory (1706-1790)

Subdued Global Economic Recovery

A subdued global economic recovery has facilitated a comparably modest global M&A rebound in 2024. Looking ahead, we expect corporates to increasingly look toward M&A for higher non-organic growth alternatives.

2024 GDP growth, y/y

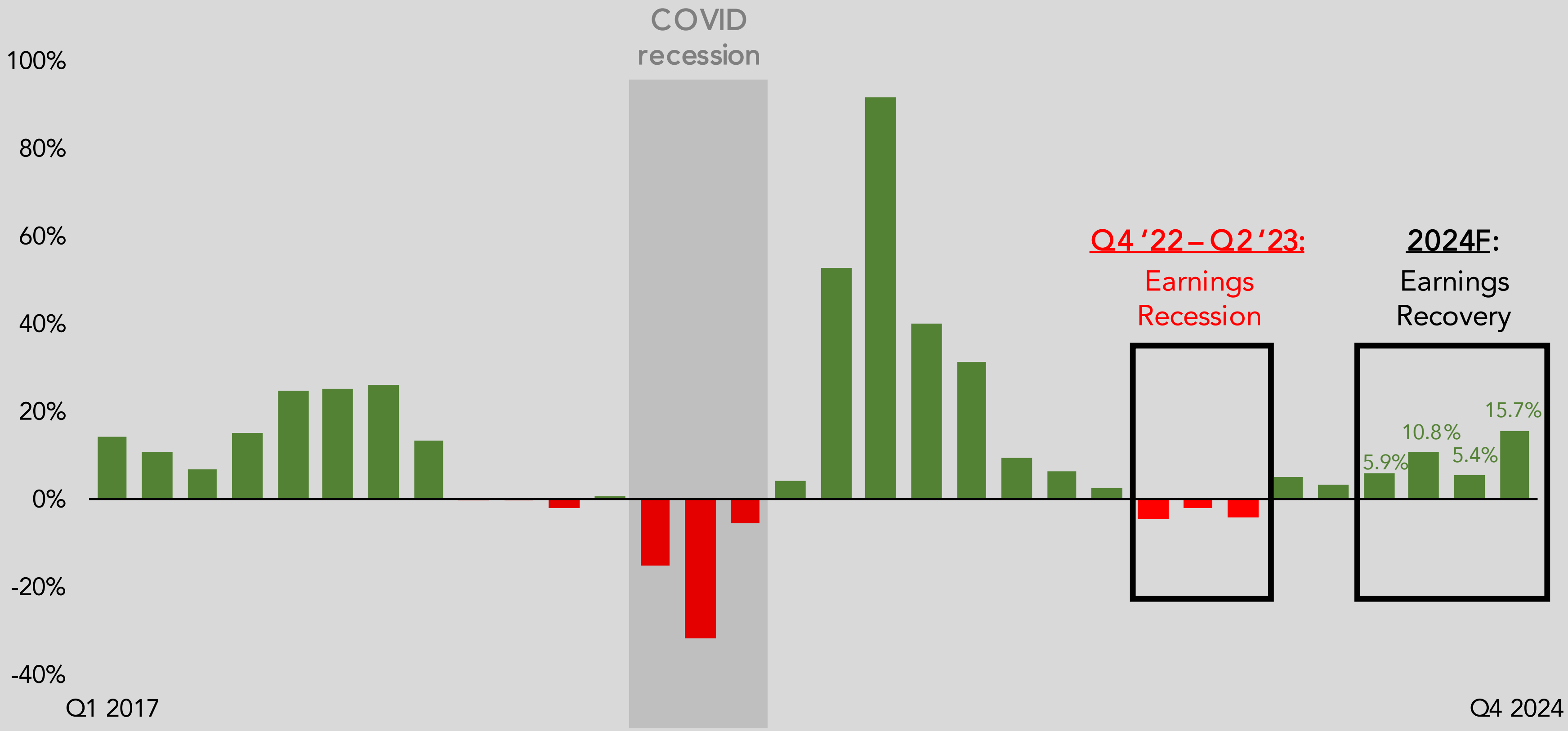


Source: (1) Oxford Economics. Data as of August 12, 2024.

Moderate S&P 500 Earnings Recovery

Following an "earnings recession" in 2023, the number and magnitude of earnings upside surprises in 2024 have exceeded long-term averages. The operating environment will nonetheless be a challenge, given: (i) geopolitical contagion to energy prices, maritime transport and supply chains; (ii) elevated funding costs; (iii) expiry of R&D and investment tax code provisions; (iv) sticky wage inflation; and (v) US election uncertainty.

S&P 500 quarterly earnings growth, y/y

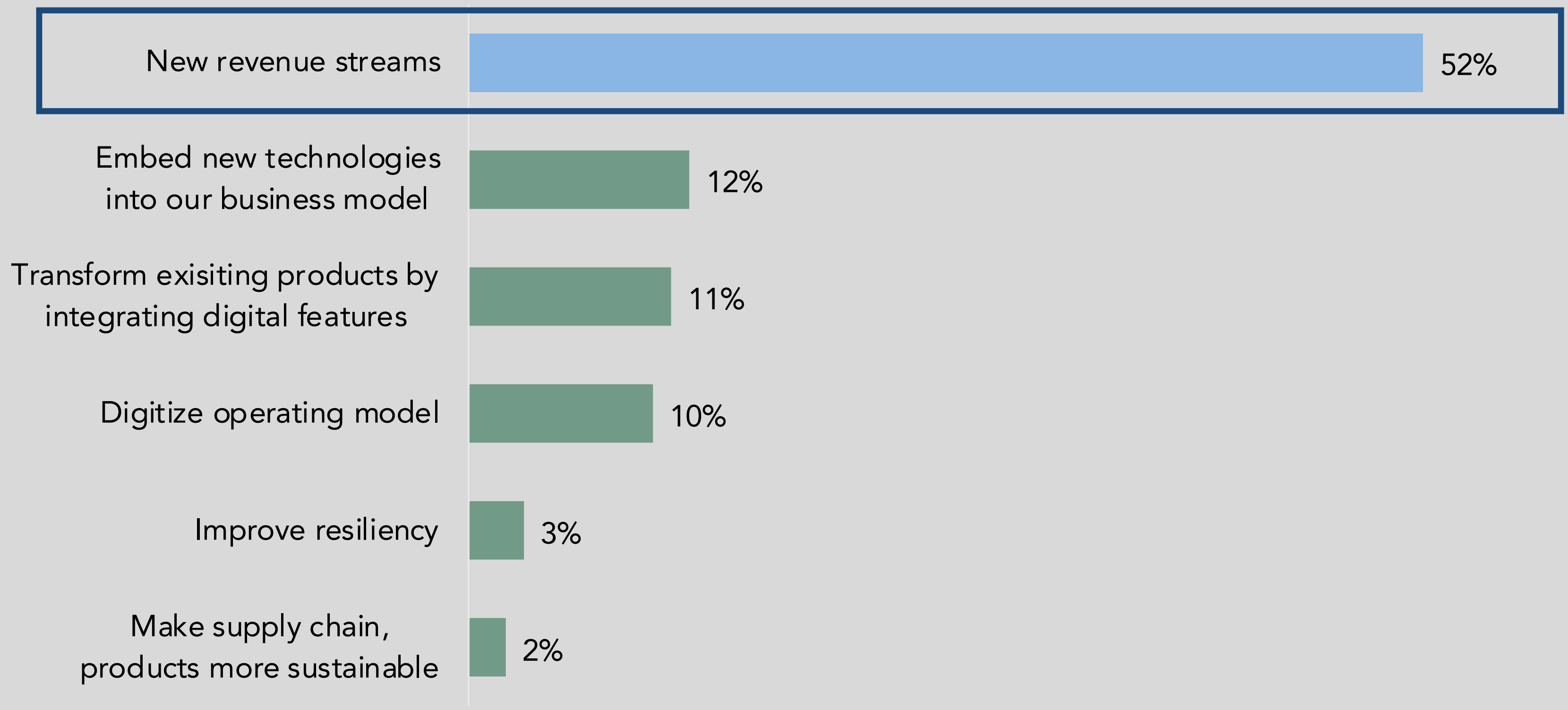


Source: (1) FactSet, Earnings Insight Report (August 9, 2024). FactSet forecast. Q2 2024 earnings growth rate of 10.8% is based on 91% of S&P 500 companies reporting actual earnings results.

Pressure for Higher, Nonorganic Growth

As organic growth opportunities in the current environment are somewhat limited for many companies, the pressure to deliver higher (and potentially non-organic) revenue earnings growth remains high.

PwC Survey: As you think about your business strategy over the next three years, what is your company's highest strategic priority?



Source: (1) PwC 27th Annual CEO Survey, US base of 231. January 15, 2024. Excludes "none of the above" responses.

Strategic Considerations by Industry

Below trend global growth and restrictive monetary policy have weighed heavily on organic growth in numerous industry sectors. Industry specific strategies for inorganic growth will therefore be important drivers of the global M&A recovery.

Selected drivers of growth-driven M&A by industry

Industry	Driver
Technology	Investing in AI, cyber and cloud
Energy	Consolidation for scale and access to oil & gas reserves. Megadeals driving consolidation.
Pharmaceuticals	Pipeline gaps due to upcoming patent cliffs
Autos	Automation and EV supply chain
Media	Restructuring distressed assets. Streaming wars and consumer demand for cross-platform content.
Consumer	Divestitures to focus on core business
Financials	Digitization and consolidation for economies of scale
Industrials	Automation and digitization. Divestitures to focus on core industry.
Metal & Mining	Critical mineral supply chains for electrification

Source: (1) Pwc, "2024 Mid-Year Outlook: Global M&A Industry Trends."

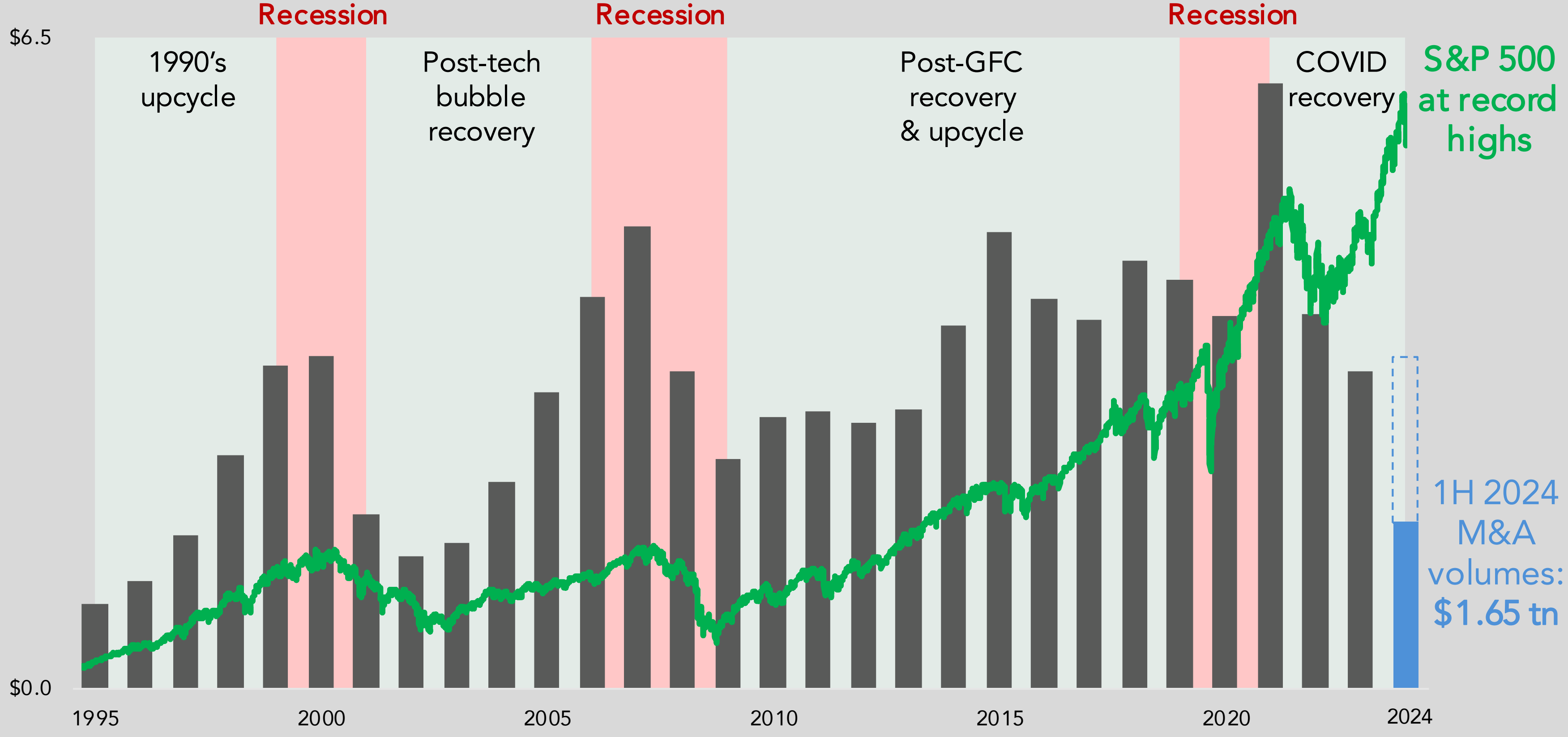
Key Drivers of M&A Activity

2 Valuation Driven Activity

Disconnect Between Markets & Deal Activity Should Rebalance

Historically, global M&A volumes have been closely correlated with S&P 500 valuations. During the last two years of accelerated policy tightening, however, M&A activity has not kept pace with global equity markets testing new highs. Looking ahead, we expect a rebalancing with steady improvement in deal activity as global capital market conditions continue to improve during the transition to policy easing.

Global M&A volumes & S&P 500 performance

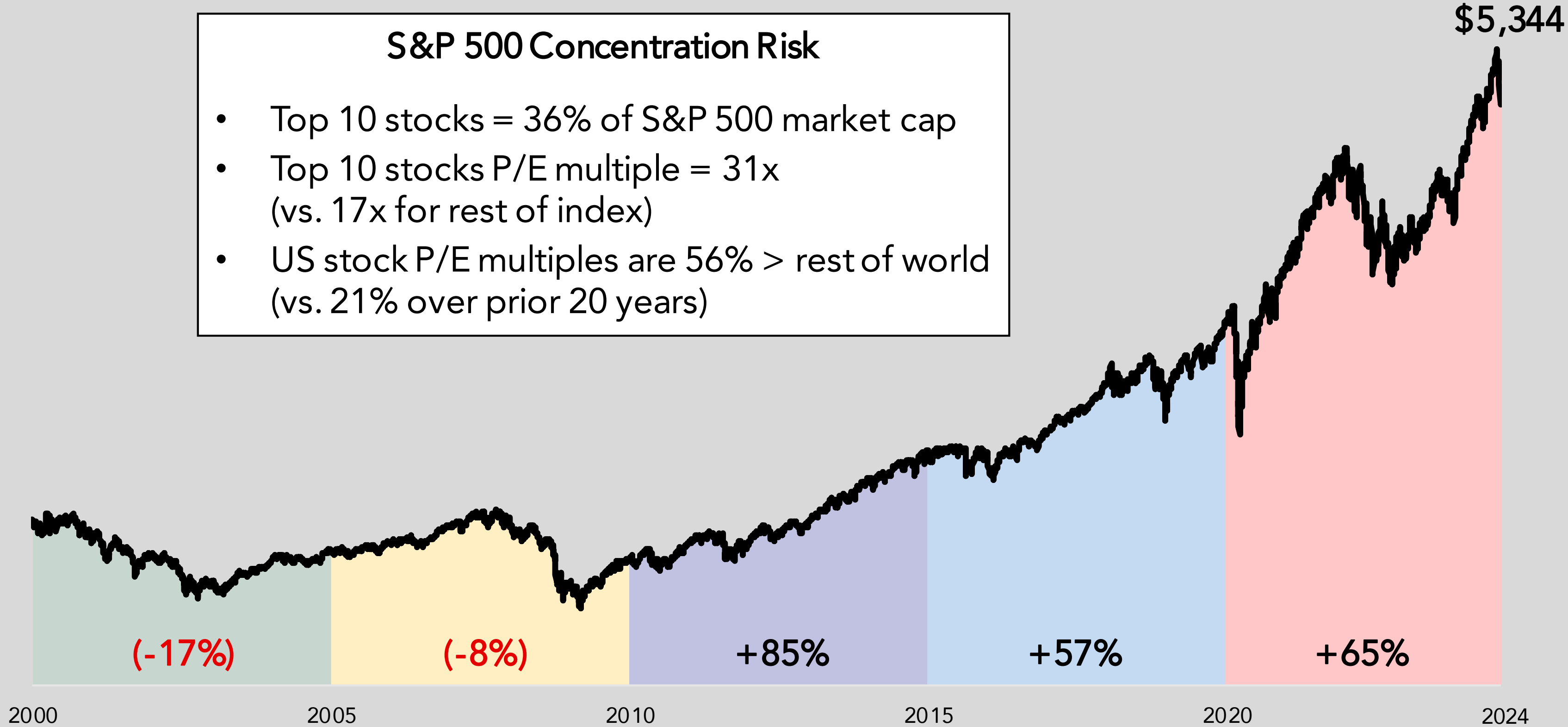


Source: (1) Cortex. Dealogic. M&A includes rank eligible. 1H 2024 data as of August 12, 2024. Bloomberg.

Concentration Risk in US Equity Markets

Global M&A has historically been highly correlated with equity markets, albeit less so today as equity gains have been highly concentrated. For much of the S&P 500, valuations have lagged growth and tech stocks, raising challenges for Boards and management. As equity market outperformance broadens beyond big tech, stock will also become a more widely utilized acquisition currency for deal activity.

S&P 500

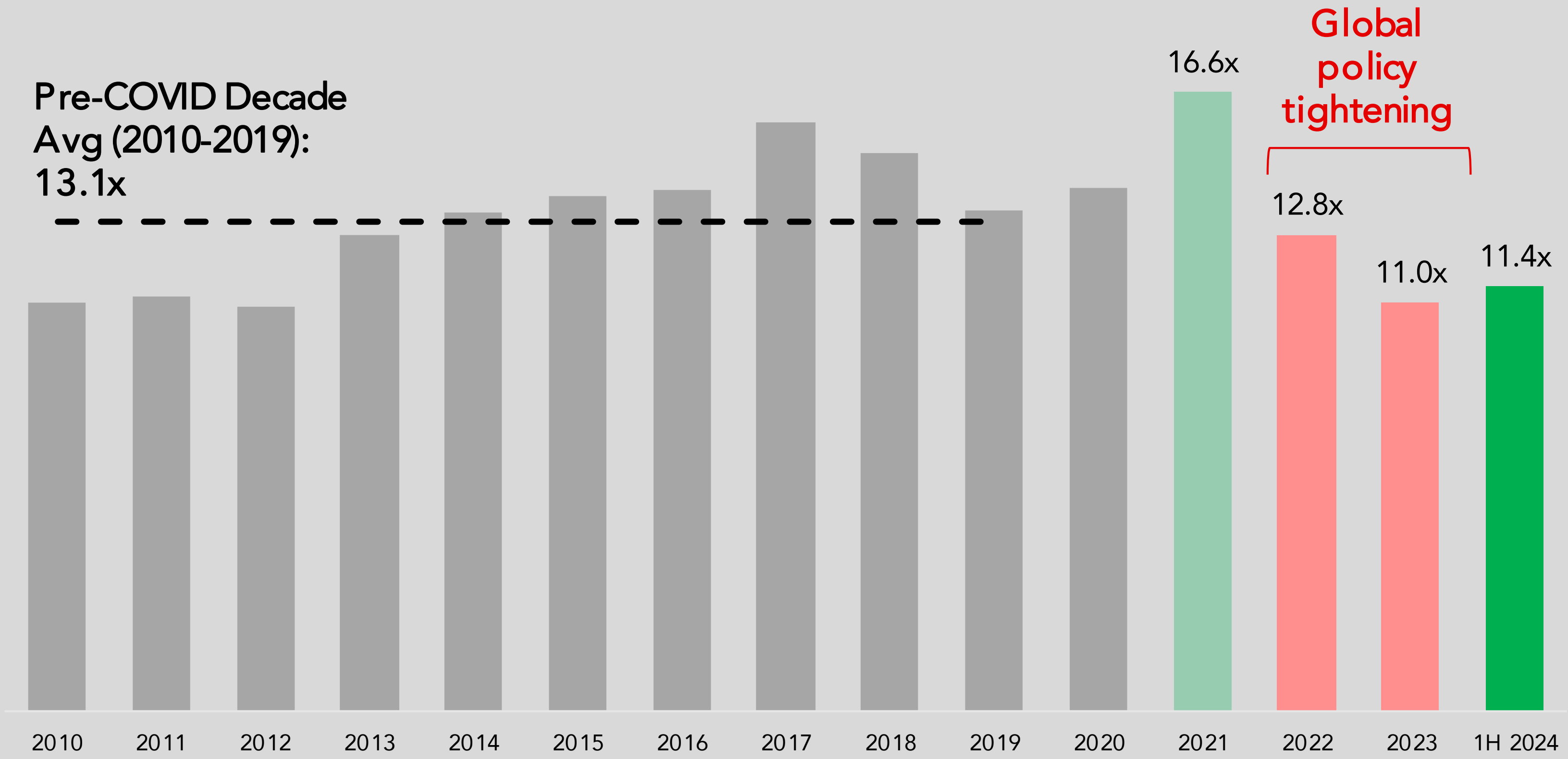


Source: (1-2) Bloomberg. Data as of August 12, 2024.

Strategic M&A Deal Valuations Normalizing

In 2022 and 2023, strategic deal valuations declined for two straight years after the robust COVID period. As buyers were hesitant to step in before multiples reset lower, and sellers clung to COVID-era multiple expectations, valuations became a formidable obstacle to deal activity in 2023. In 2024, valuations appear to have stabilized, though there is still a clear divide between "best in class" assets and "tier two" assets.

Global M&A median EV / EBITDA multiples

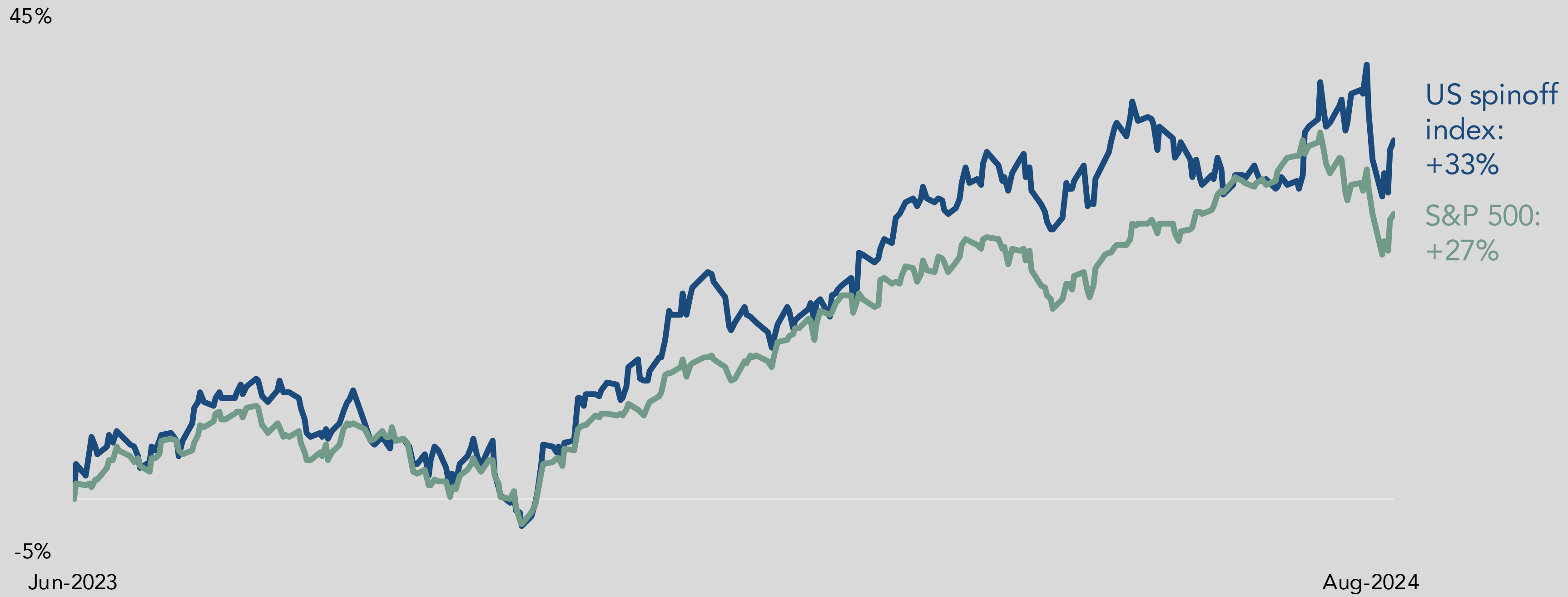


Source: (1) Cortex. Dealogic. Data for 1H 2024 as of July 10, 2024. Includes rank eligible, M&A deals.

Market Rewarding Spin-Offs

Over the past year, markets have rewarded spin offs as companies seek "business focus" and capital efficiency by monetizing non-core assets and / or underperforming businesses, reducing operation risk and strengthening balance sheets.

S&P 500 and US spinoff index



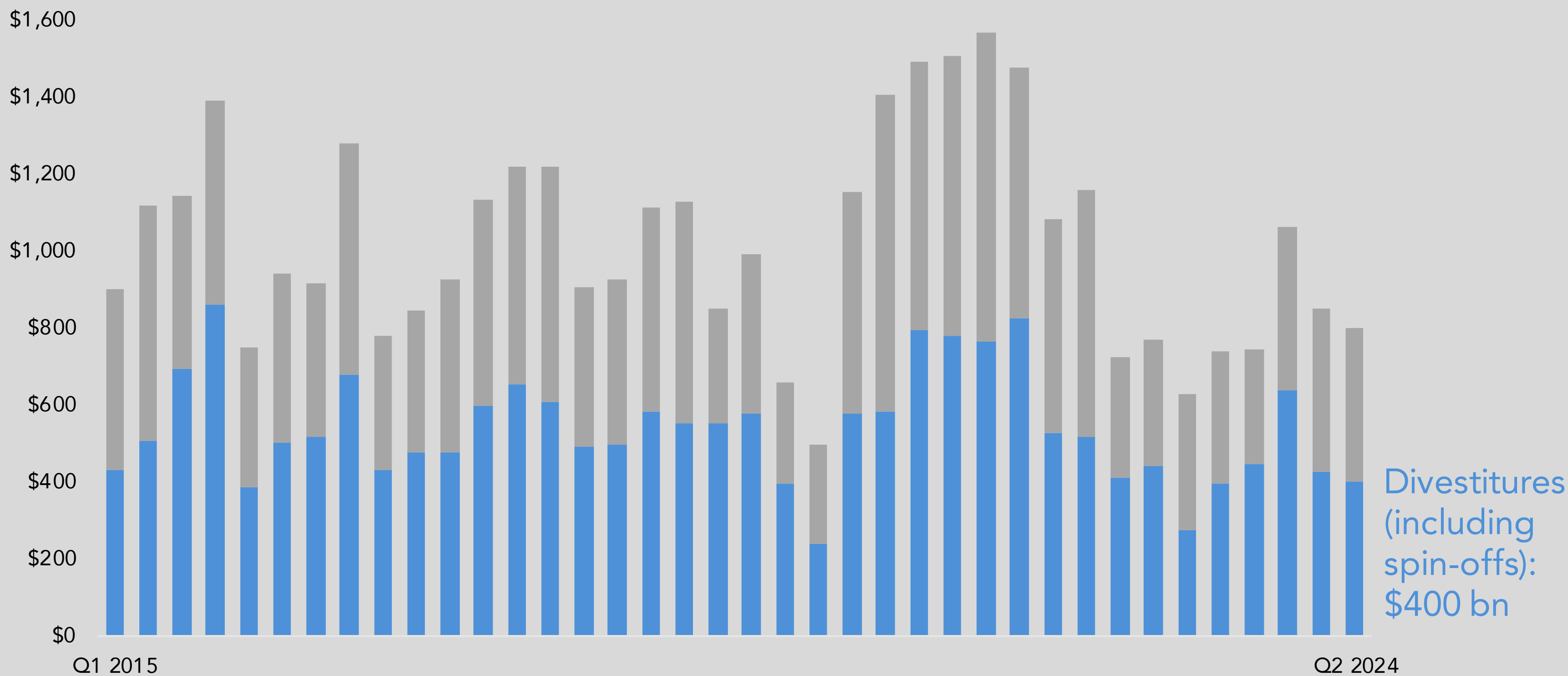
Against a challenging macro backdrop, companies have pivoted to a variety of strategies to streamline operations and unlock value, including divestitures, carve-out separations, spinoffs and joint ventures.

Source: (1) Bloomberg. Data as of August 12, 2024. Spinoff index is Invesco S&P Spinoff ETF.

Divestitures Critical for Liquidity and Regulatory Dynamics

Against a more complicated higher rate environment, divestitures have become a key tool for businesses to raise capital while focusing on core business operations or preemptively manage regulatory anti-trust processes. Non-traditional deal structures such as joint ventures with post-close seller's stakes and long-term commercial arrangements are also being utilized by dealmakers.

Quarterly global M&A, USD bn



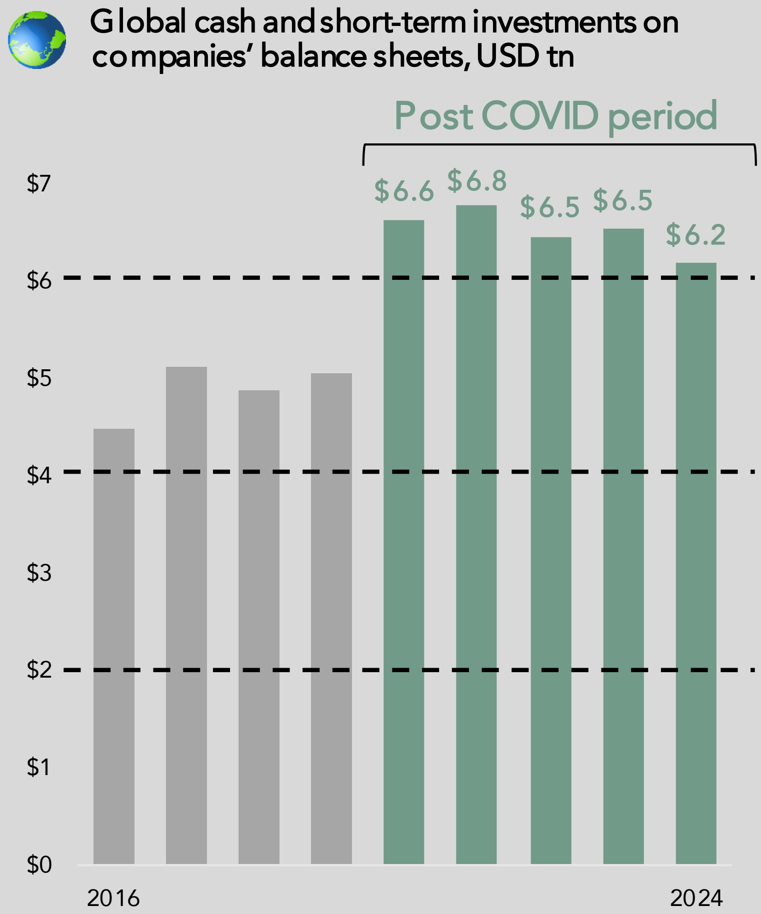
Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. 2024 M&A Outlook: Building on Dynamic Dealmaking and Resilience from 2023, and Capitalizing on Emerging Developments.

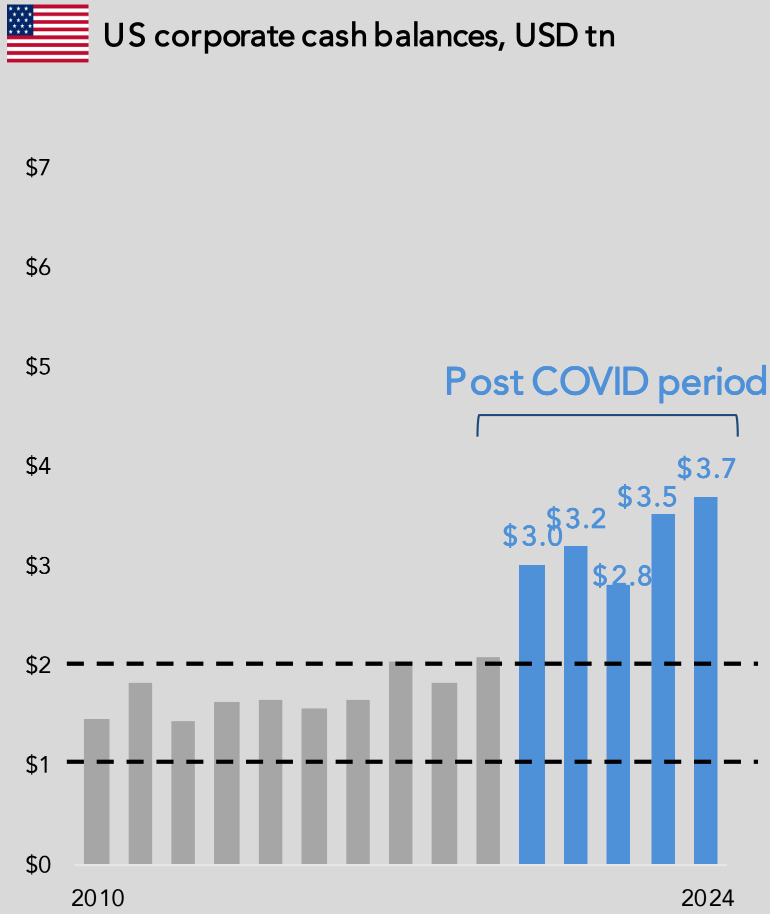
Key Drivers of M&A Activity

3 Fortified Balance Sheets & Abundant Capital

Fortified Corporate Balance Sheets

Corporates moved quickly (and impressively) after COVID to adjust business strategy to drive stronger operating performance as well as to fortify balance sheets with historically low cost capital.



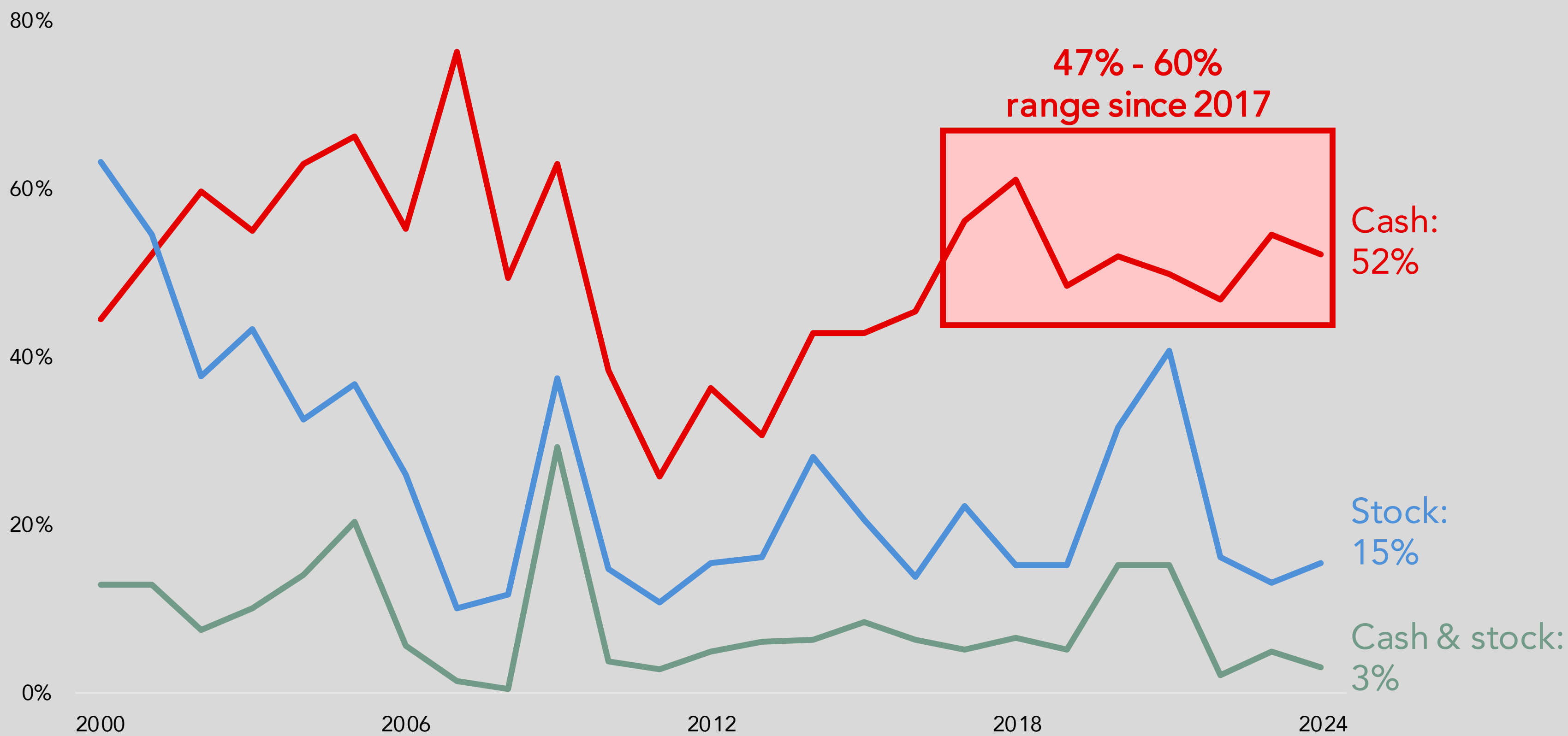


Source: (1) S&P Global Market Intelligence, S&P Global Ratings. Data as of July 29, 2024. Refers to nonfinancial corporates rated by S&P Global Ratings globally. (2) Federal Reserve. US corporate cash balance is nonfinancial corporate business foreign deposits, checkable deposits and currency, time and savings deposits, and money market funds. 2024 data through Q1.

Abundant Cash as Critical Deal Currency

As companies fortified their balance sheets in recent years, and took advantage of attractive financing markets, cash has become a resilient source of "deal currency" for global M&A activity.

Global M&A form of consideration

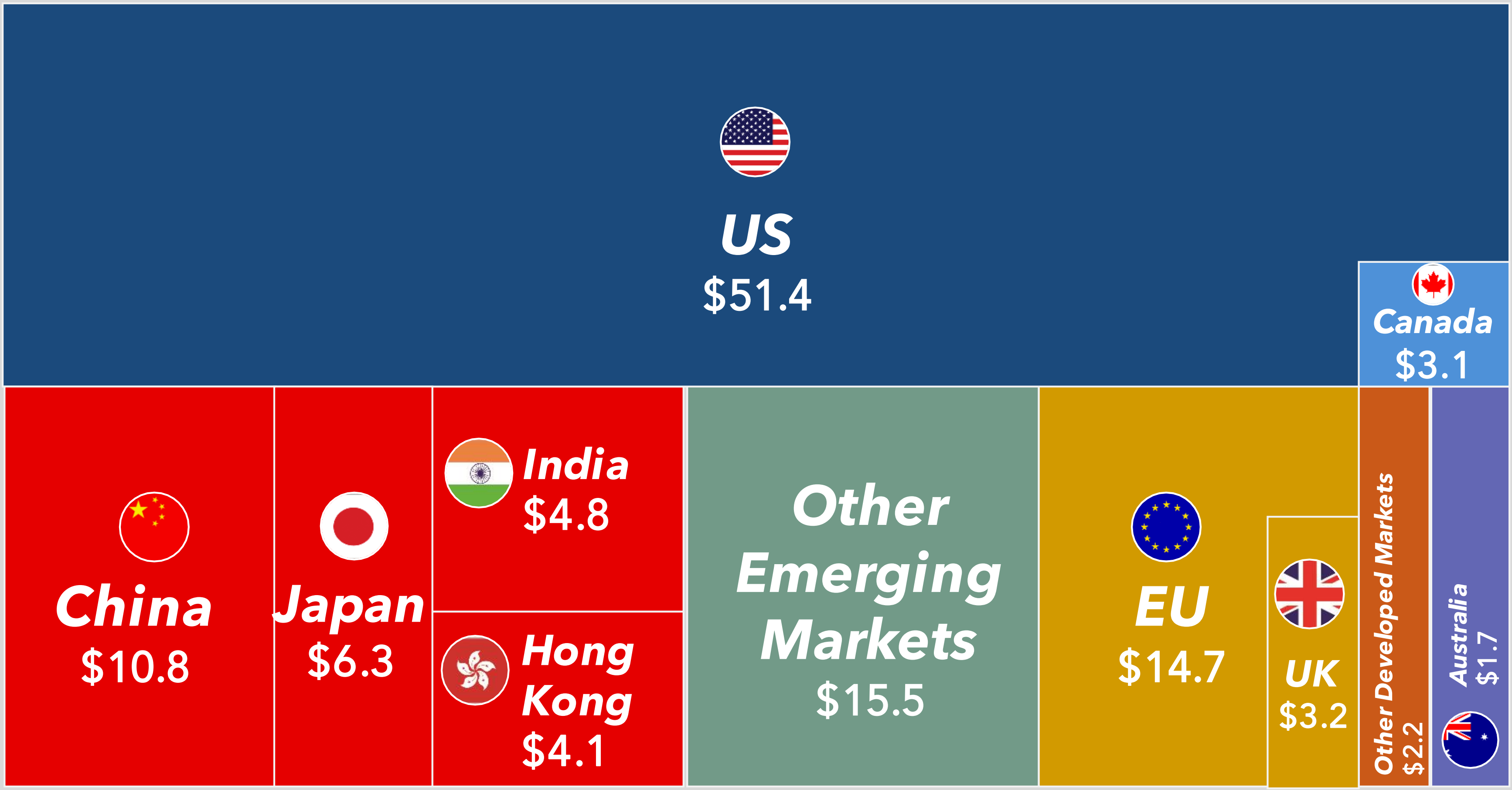


Source: (1) Cortex. Dealogic. Data as of July 12, 2024. Includes rank eligible, M&A deals. Cash includes cash and internal funds. Stock includes converti ble preferred stock, preferred shares, shares and placing and open offer. Data excludes transactions where source of funds is unknown.

Over $120 Trillion of Global Equity Market Capitalization

At over $120 trillion in size, global equity markets have risen considerably over the last decade, and provide formidable "acquisition currency" for deal-making activity.

Global equity market cap share, USD tn

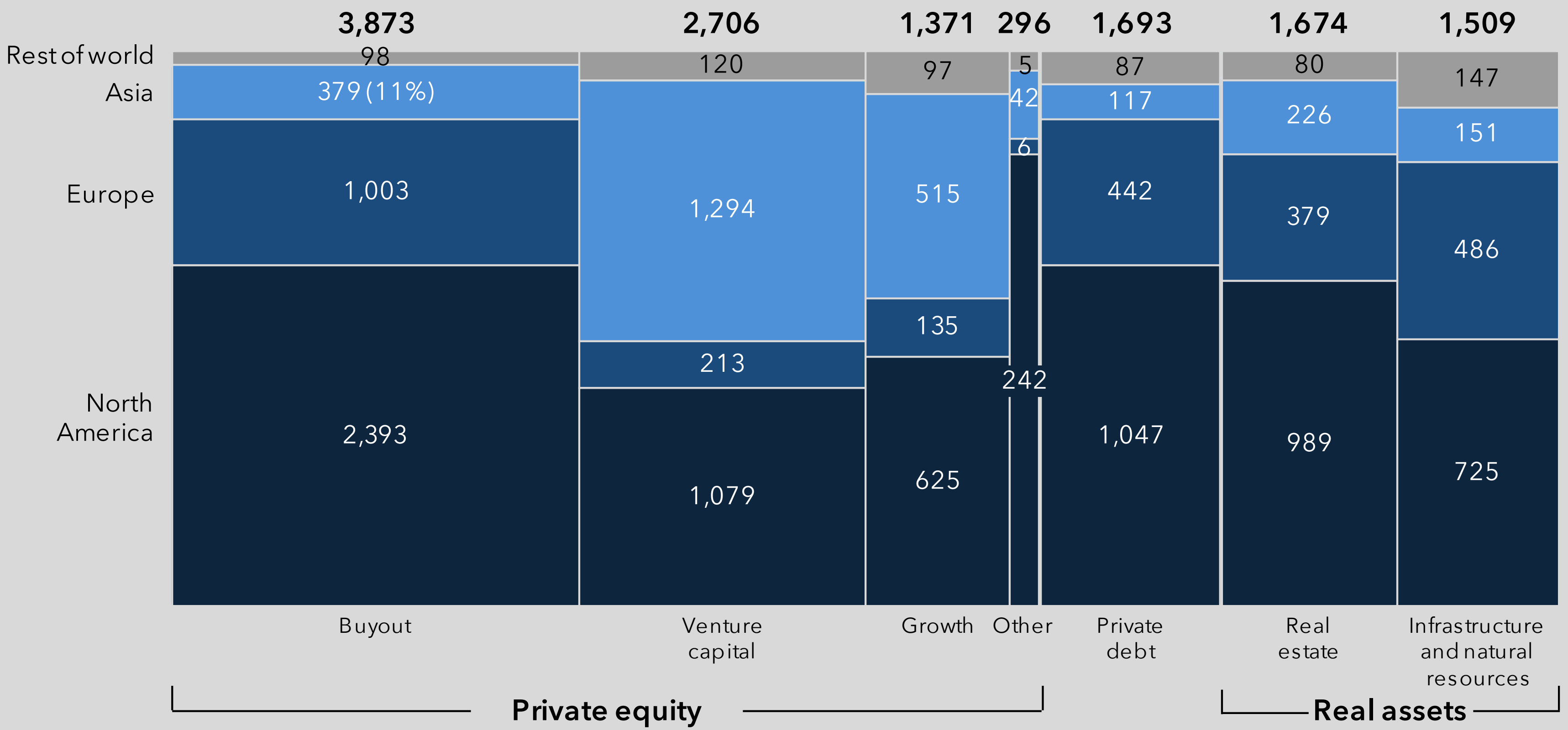


Source: World Federation of Exchanges. Data is April 2024. UK is Statista.

Over $13 Trillion of Private Capital Globally

According to a recent study by McKinsey & Company, private market AUM has grown nearly 14% per year since 2013 and totaled $13.1 tn in 1H 2023. Private debt AUM has nearly doubled since 1H 2020 while Private Equity funds, which have held assets longer than usual due to a more challenging exit market, have increased AUM by over 80% in the same time period.

Private market assets under management, H1 2023, USD Billion

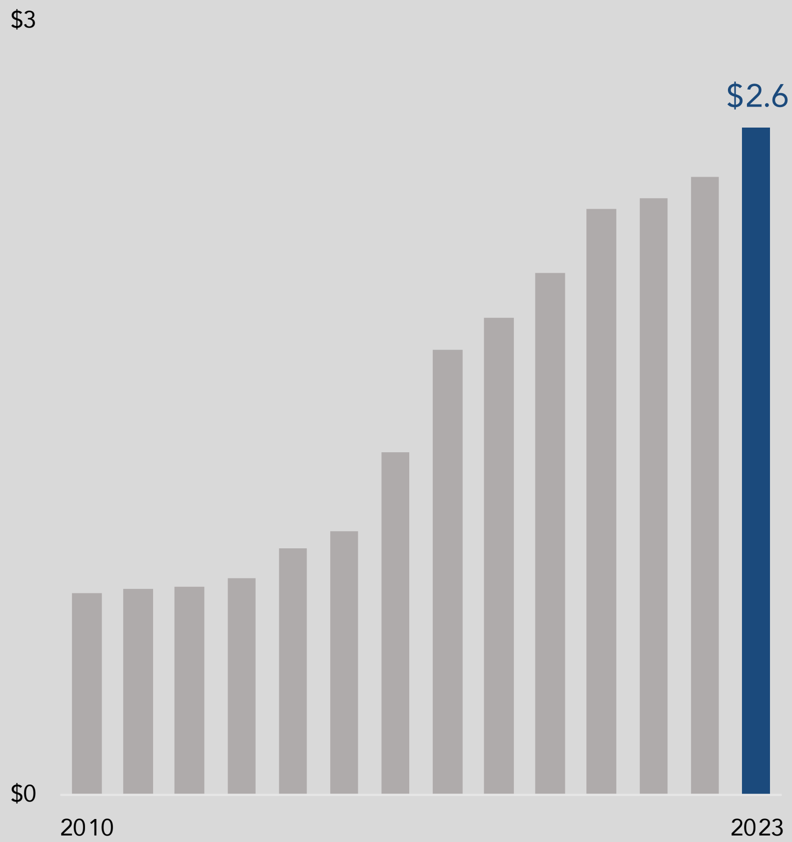


Source: (1) Prequin. McKinsey & Company, "Private markets: A slower era" (March 2024). Figures may no sum precisely because of rounding. Other includes turnaround, private investments in public equity, balanced, hybrid funds, and funds with unspecified strategy.

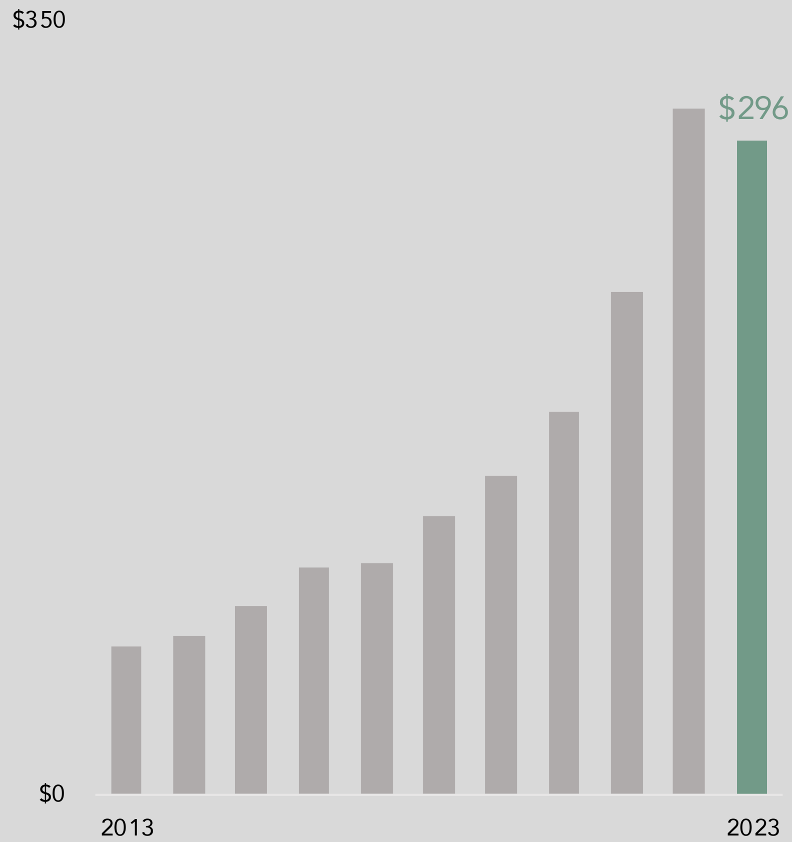
Record Private Equity "Dry Powder"

Between 2021 and 2023, US Private Equity funds had their three strongest fundraising years on record. The trend continued in Q1 2024 as 63 PE funds raised $77 bn in the first three months of the year. More cautious investment strategies over the same time period have driven PE dry powder to record levels. Record "dry powder" is likely to be an important source of deal activity in the years ahead.

Global private equity dry powder, USD tn



US VC dry powder, USD bn



Source: (1) S&P Global Market Intelligence. Data for 2023 is YTD. Analysis includes aggregate. (2) Pitchbook, "NVCA Venture Monitor – Q2 2024". Data as of December 31, 2023.

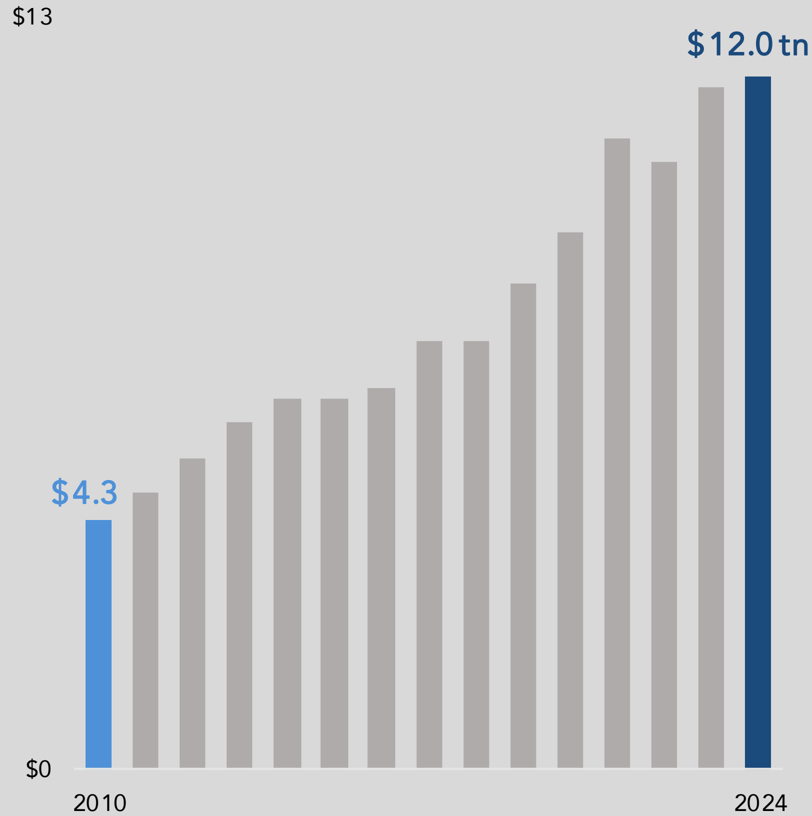
Large Sovereign Wealth Funds Increasingly Active

Seeking higher returns and increased influence across international markets, global sovereign wealth funds have become increasingly prominent in global M&A in recent years. The resource-rich GCC funds have been notably active in cross-border M&A, while other SWFs have partnered with PE and venture funds with increased frequency.

Top 10 global sovereign wealth funds by AUM

1.	Norway Gov't Pension Fund Global	**$1,634 bn**
2.	China Investment Corporation	**$1,240 bn**
3.	SAFE Investment Company	**$1,098 bn**
4.	Abu Dhabi Investment Authority	**$993 bn**
5.	Public Investment Fund	**$978 bn**
6.	Kuwait Investment Authority	**$969 bn**
7.	GIC Private Limited	**$769 bn**
8.	Qatar Investment Authority	**$510 bn**
9.	Investment Corporation of Dubai	**$360 bn**
10.	Mubadala Investment Company	**$302 bn**

Global sovereign wealth fund AUM, USD tn

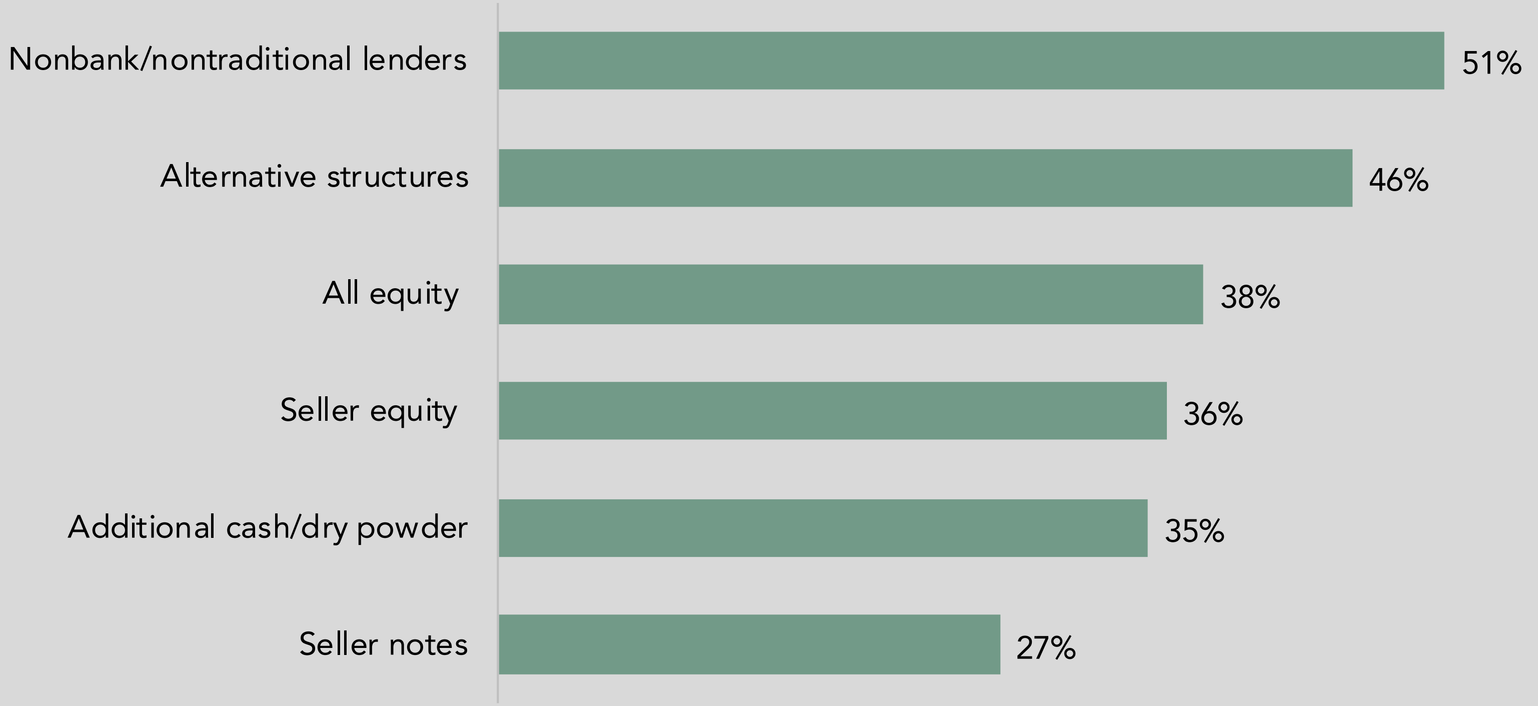


Source: (1-2) Global SWF. AUM is assets under management. Data as of June 2024.

Alternative Financing Vehicles Critical to Deal Execution

Buyers have utilized a myriad of deal structures, including joint ventures, club deals and consortium transactions to alleviate the challenges of higher interest rates and a more constrained lending environment. Buyers have also utilized financing options to provide a longer time horizon to successfully achieve financing.

Deloitte Survey: Given the economic, regulatory, and other operational headwinds, which alternative financing vehicles (to traditional bank debt) has your company used in the past year or will very likely use in the next year to get deals done?



Source: (1) Deloitte, "2024 M&A Trends Survey." Survey of 1,500 executives, conducted between September 19 – October 10, 2023. Respondents were asked to select all applicable choices. Alternative structures are structures other than traditional M&A (e.g. JV, strategic partnership). Nonbank/nontraditional lenders are methods of lending/preferred financing from a company's nonbank/nontraditional lender (e.g. hedge funds, other investment vehicles).

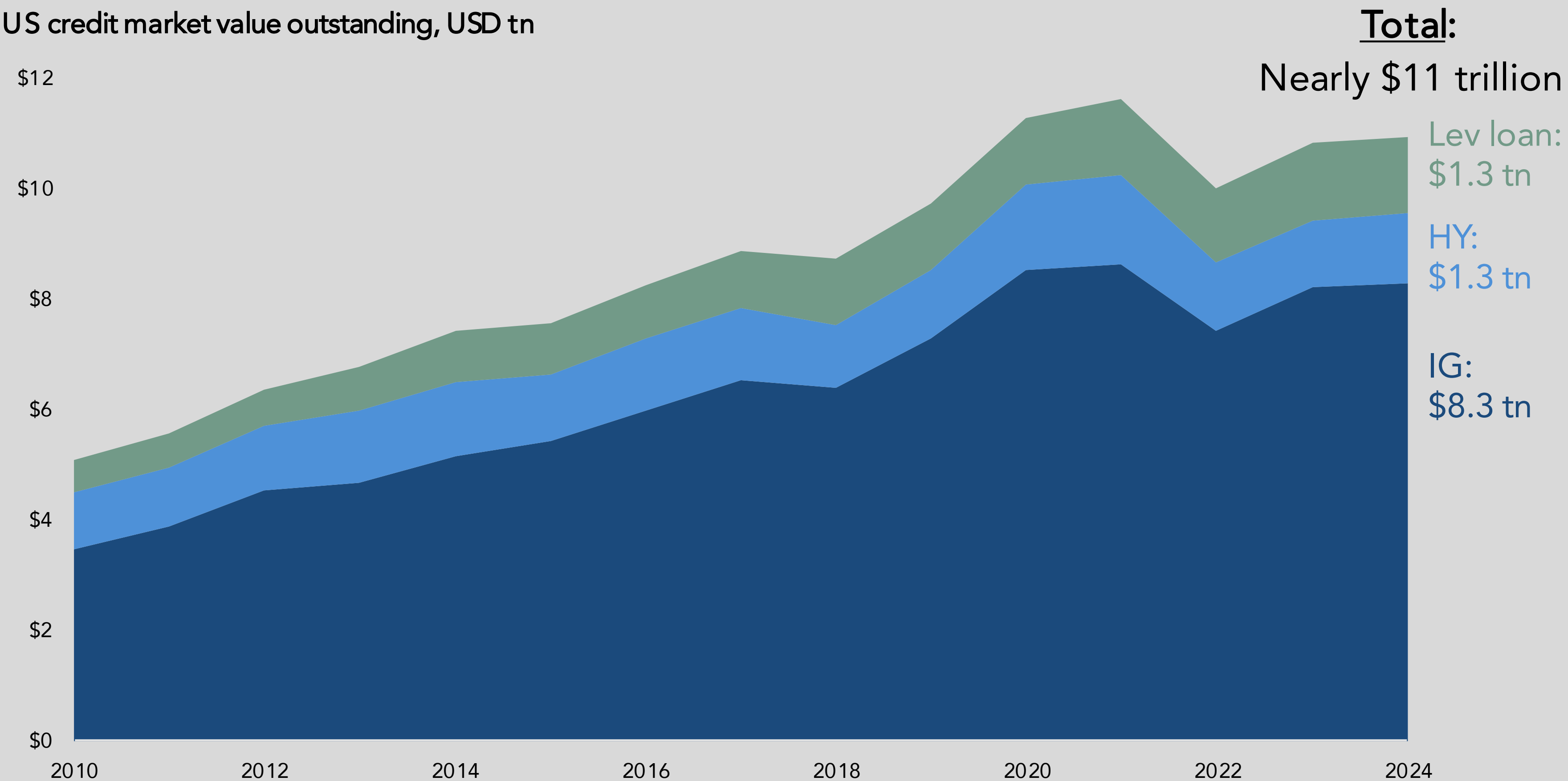
Key Drivers of M&A Activity

4 Robust Corporate Debt Financing Markets

Large, Liquid Corporate Debt Markets

US Dollar corporate credit markets, the largest in the world, have more than doubled in size since the Global Financial Crisis. In the first half of 2024, nearly 13% of IG issuance ($107 bn) proceeds were directed toward M&A.

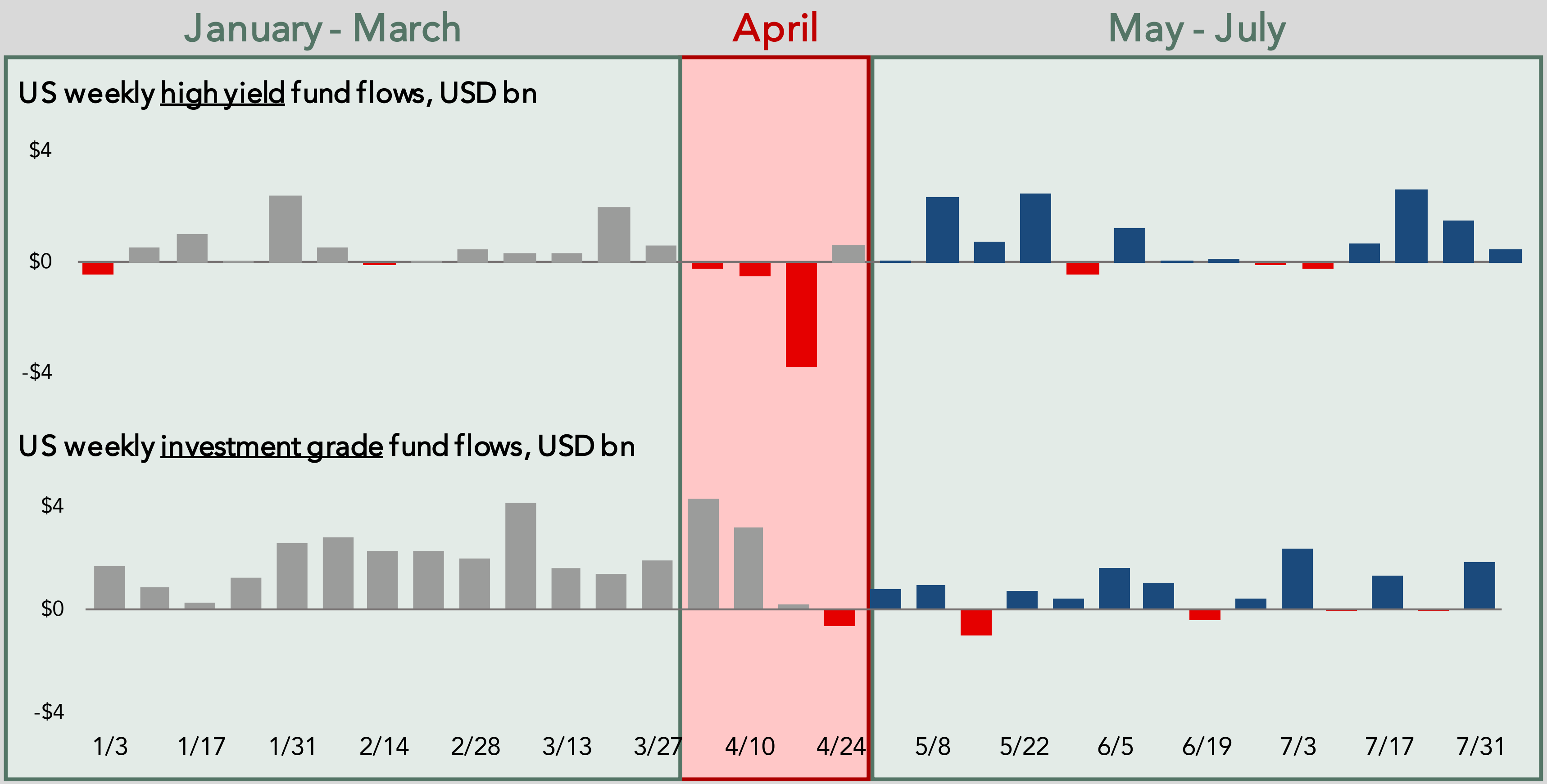
US credit market value outstanding, USD tn



Source: (1-2) CreditSights. FactSet. ICE Data Indices. LLC. LFI. CFR. Data as of June 30, 2024.

Resurgent USD Bond Flows in 2024

With the exception of the more pronounced period of rate volatility in April, USD IG and HY bond flows have been quite strong in 2024. Fueled by resilient economic fundamentals and a Fed policy transition underway, investors increased allocations to strong, yield-producing corporate balance sheets globally.

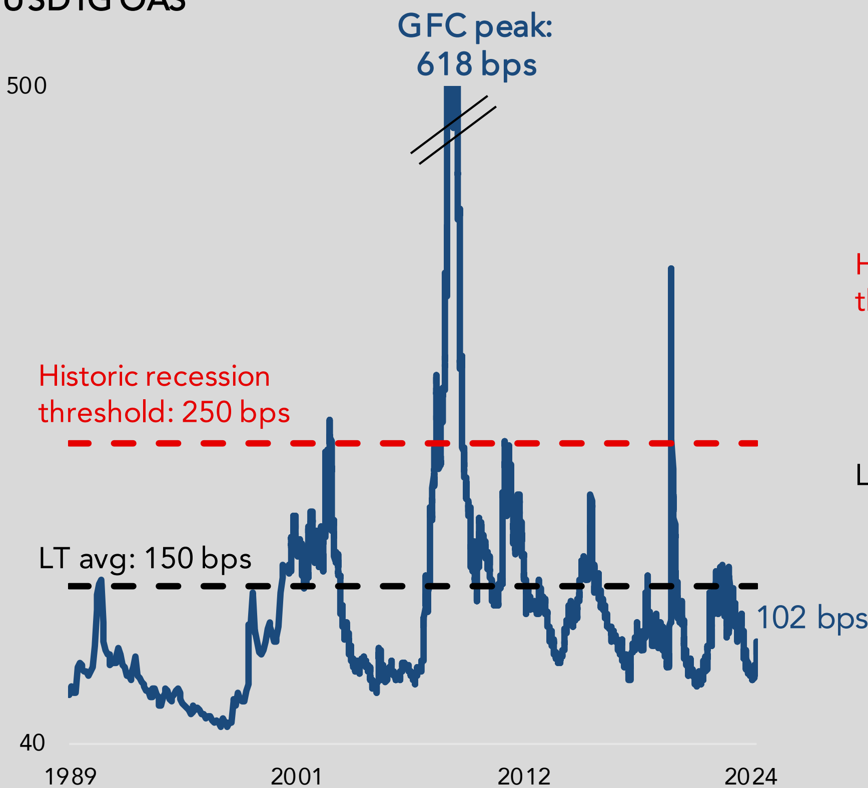


Source: (1) IFR. Data through July 31, 2024.

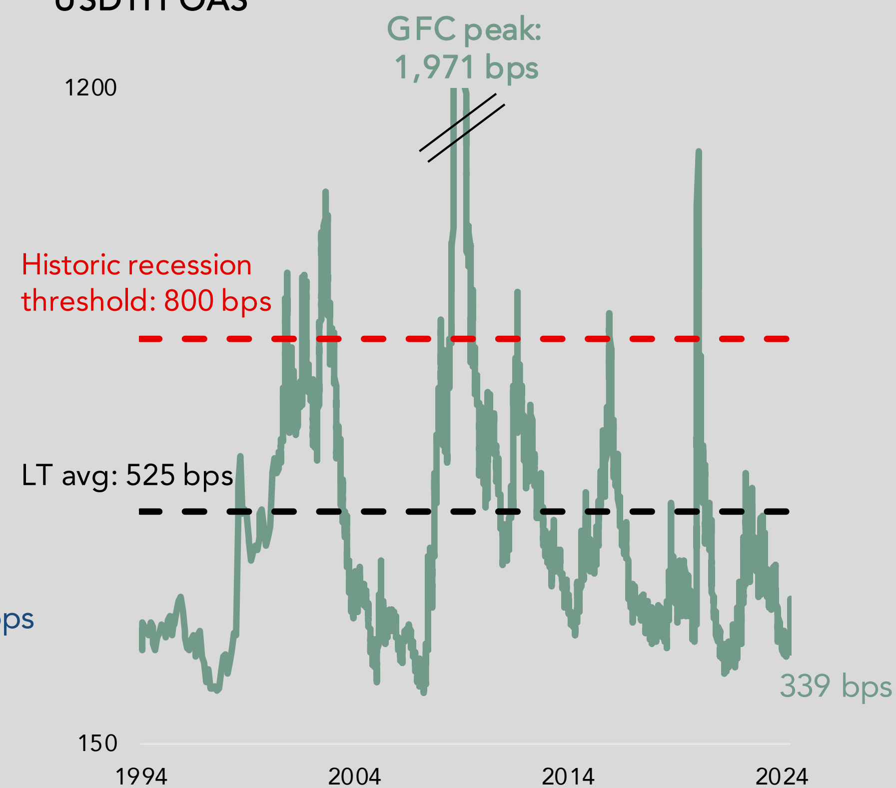
Credit Spreads at Multi-Decade Tights

Despite the uncertainty of policy transition and elevated geopolitical risk, IG and HY spreads have tightened to levels well below both long-term averages and historic recession thresholds. As the economy downshifts, look for HY spreads to experience more idiosyncratic and industry-specific dispersion.

USD IG OAS



USD HY OAS



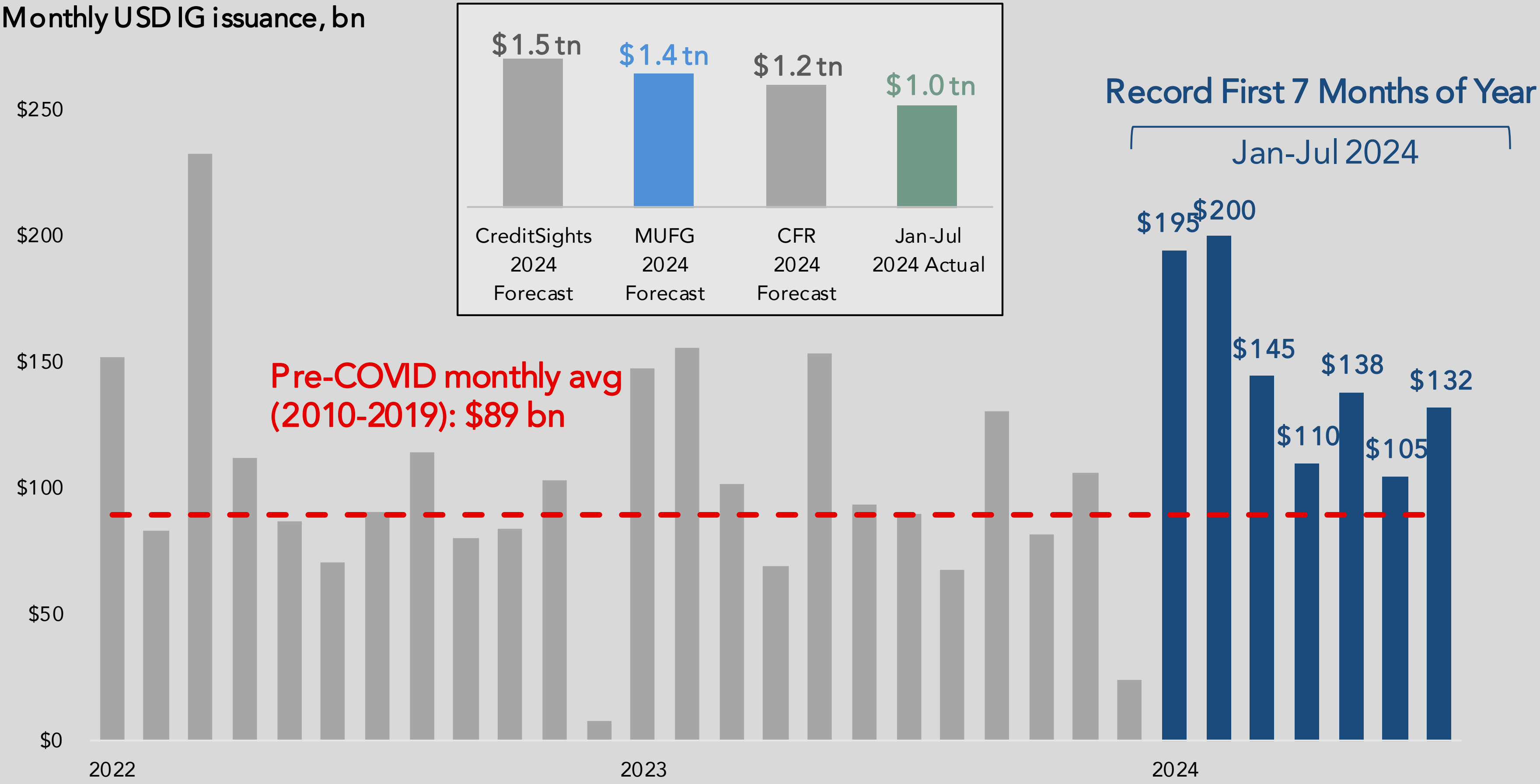
IG credit spreads remain firmly supported by both market technicals and fundamentals.

Source: (1-2) Bloomberg. Data as of August 12, 2024.

Record 7 Months of USD IG Issuance

At $132 bn, 2024 set a new all-time high for July USD investment grade issuance. After a record breaking January and February, 2024 issuance surpassed the $1 trillion mark in just 206 days, the fastest pace on record (ex 2020). For the first time in history, monthly issuance has exceeded $100 bn in every month of 2024 to date.

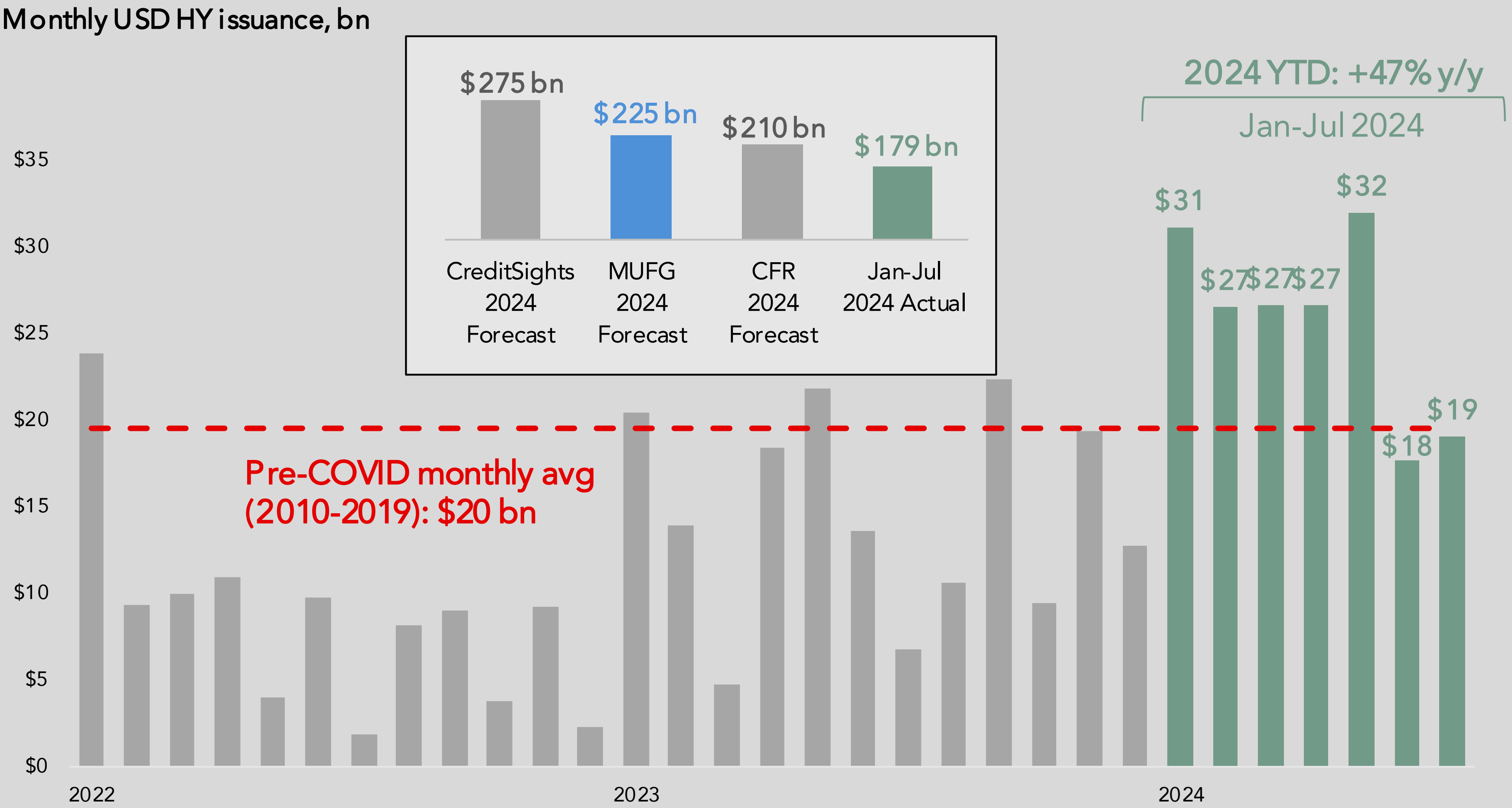
Monthly USD IG issuance, bn



Source: (1) CFR. Data as of July 31, 2024. CFR forecast is consensus average. CreditSights. CS forecast is gross supply.

2024 USD HY Issuance Well Above Historical Pace

Just seven months into the year, 2024 USD HY issuance has surpassed 2023's full year issuance volume. Year-to-date issuance of $179 bn is just $46 bn short of MUFGs estimate for full year issuance.

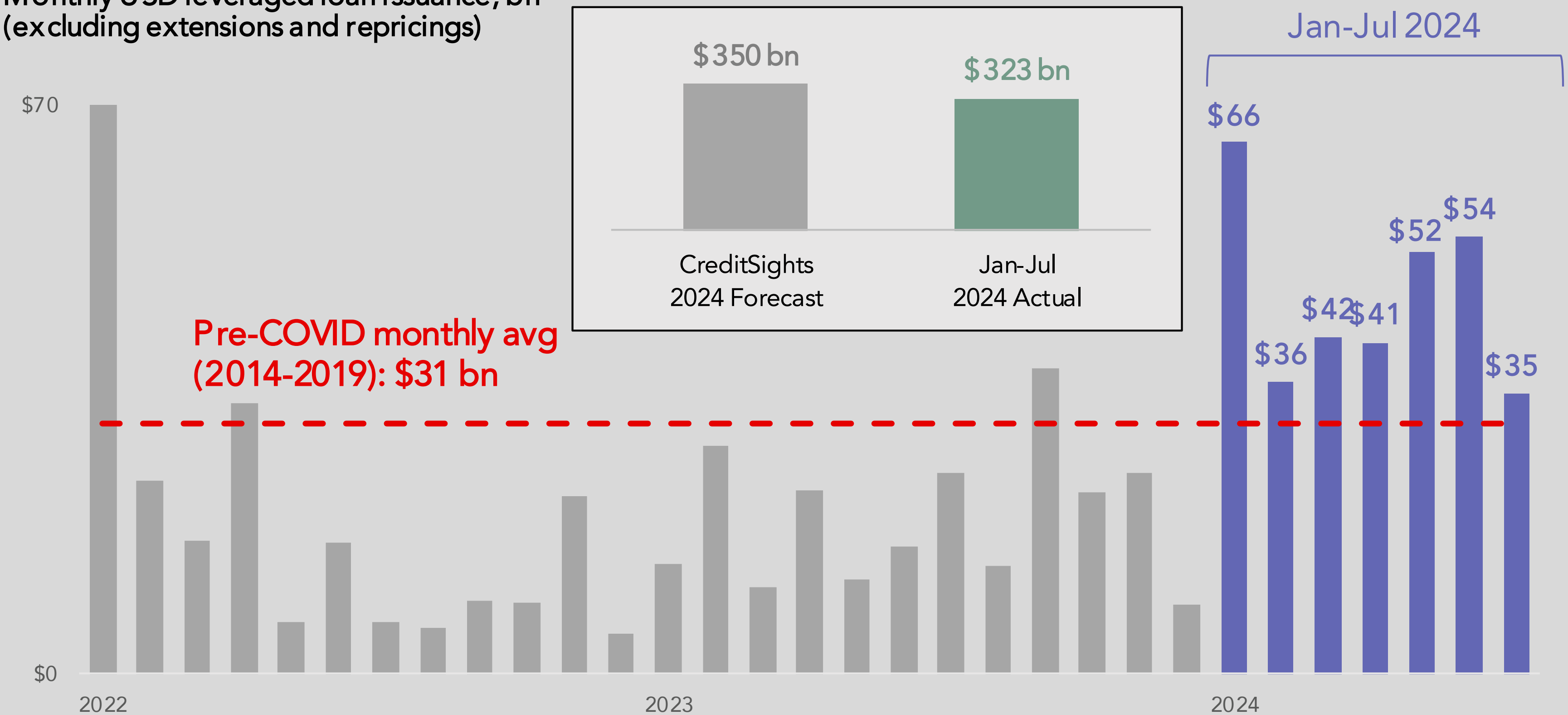


Source: (1) CFR. Data as of July 31, 2024. CFR forecast is consensus average. CreditSights. CS forecast is gross supply.

2024 Robust USD Leveraged Loan Issuance

Leveraged loan issuance (excluding extensions and repricings) has outpaced its pre-COVID average in every month of 2024 driving year-to-date new issuance to $323 bn, just $27 bn short of CreditSights' full-year forecast of $350 bn. In addition to robust net new issuance, opportunistic refinancing activity has also driven total issuance volume higher this year, accounting for roughly 55% of year-to-date activity.

Monthly USD leveraged loan issuance, bn
(excluding extensions and repricings)



Source: (1) Pitchbook. Data through July 31, 2024. Leveraged loan issuance repricings, refinancings, extensions, and non-refinancing issuance. Extensions and repricings reflect deals done via an amendment process.

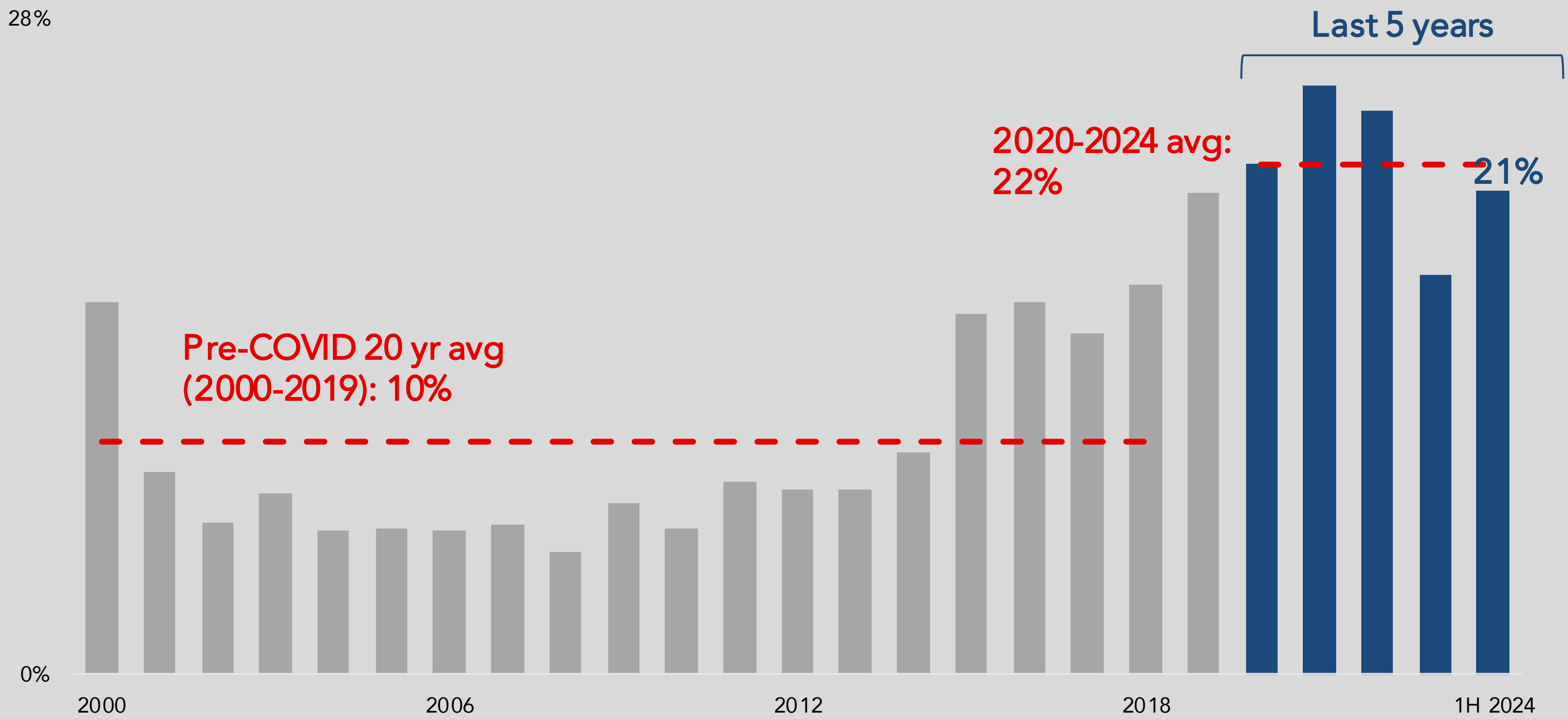
Key Drivers of M&A Activity

5 Innovation, Disruption & Disintermediation

Technology as Pervasive M&A Driver

Over the last 5 years, tech driven transactions dominated both the global M&A space and the private equity market as the trend toward automation and digitization accelerated in the COVID-recovery period. Looking ahead, we expect tech-driven deal flow to continue its rapid pace as companies seek to improve productivity in the face of supply side challenges and as tech focused PE firms raise record levels of capital for new investment vehicles.

Tech as a % of global M&A

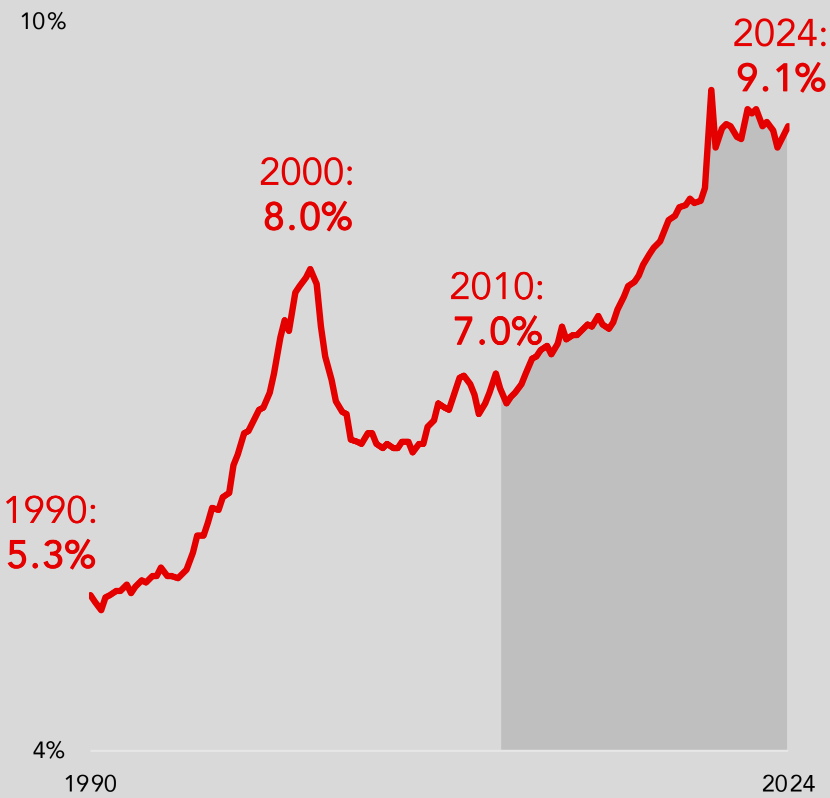


Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. Technology is computers and electronics as target sector.

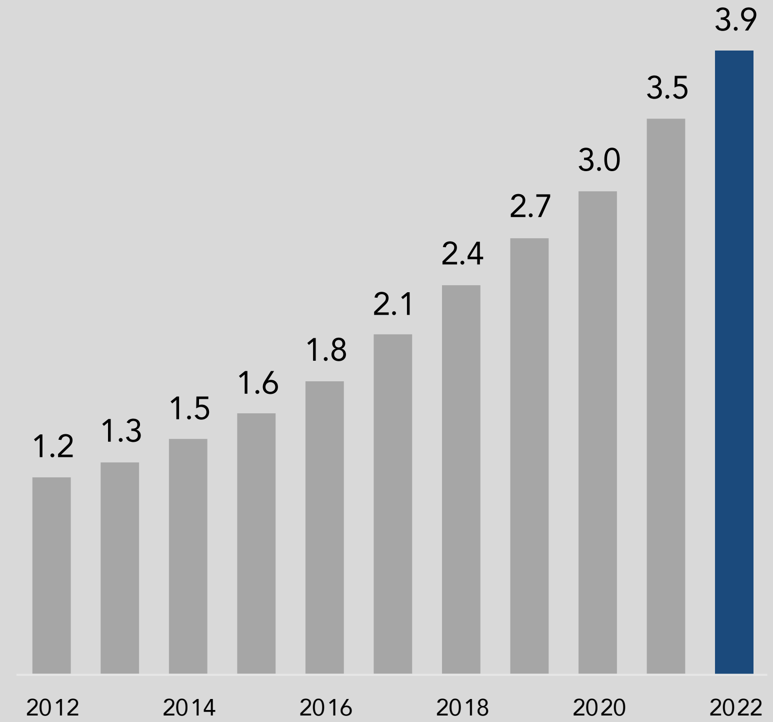
Corporate Investment in Innovation Rising Sharply

Corporate sector spending on technology and R&D has risen gradually over the past decade, and at a more rapid pace since the COVID crisis began. Spending has accelerated across numerous areas, including: software, data analytics, e-commerce, digitization, cloud computing, AI, automation, workplace collaboration, healthcare innovation and cyber-security.

US software, info processing and R&D spending as % of GDP



Global operational stock of industrial robots, millions

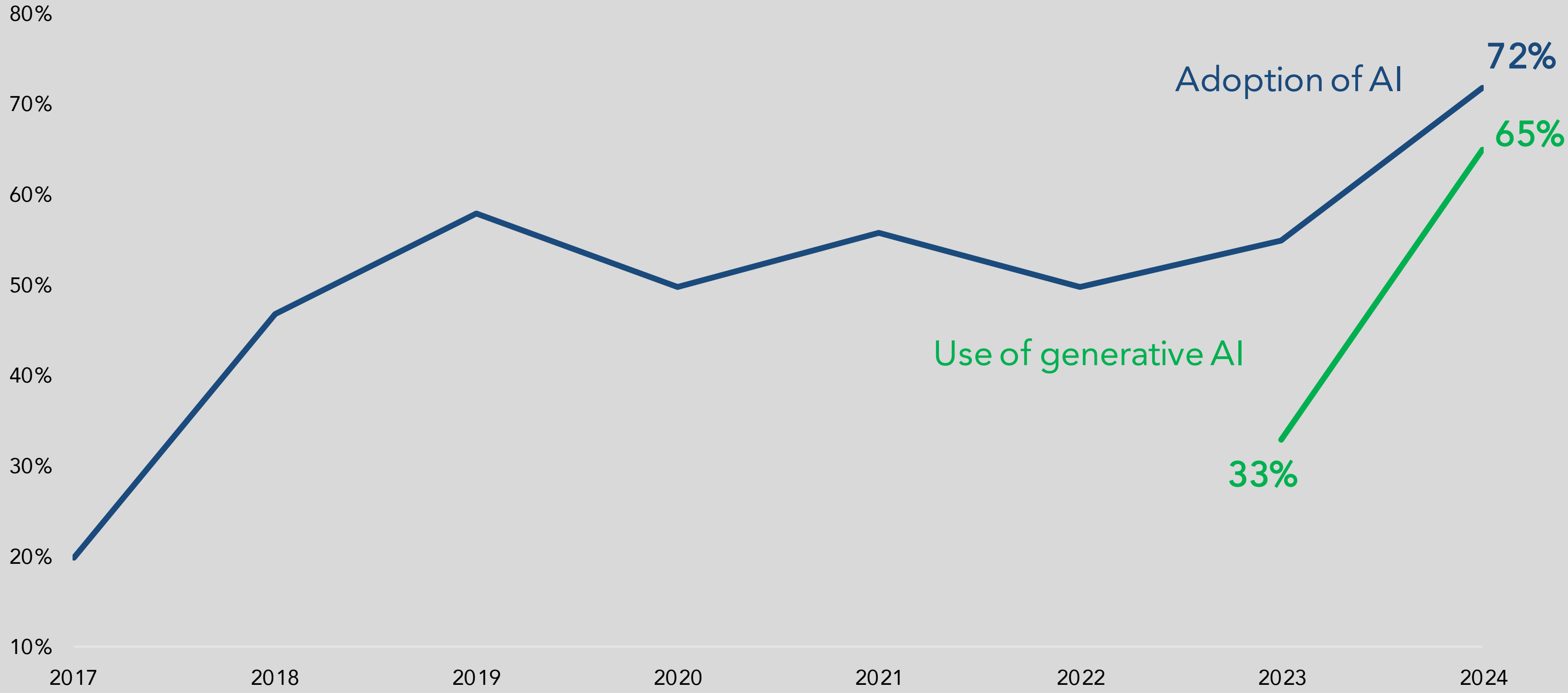


Source: (1) FRED. BEA. Software , Information Processing and R&D is Private Fixed Investment, Nonresidential. Data through Q1 2024. (2) IFR. International Federation of Robotics, "World of Robotics 2023."

Rising AI Adoption Fundamental to Business Strategy

AI adoption and integration has accelerated in the past year. For the six years between 2018 and 2023, AI adoption by respondents to a McKinsey study hovered around 50%. In 2024, adoption in the same survey jumped to 72%.

Organizations that have adopted AI in at least 1 business function, % of respondents



Source: (1) QuantumBlack AI by McKinsey, "The State of AI in Early 2024: Gen AI Adoption Spikes and Starts to Generate Value." 1In 2017, the definition for AI adoption was using AI in a core part of the organization's business or at scale. In 2018 and 2019, the definition was embedding at least 1 AI capability in business processes or products. Since 2020, the definition has been that the organization has adopted AI in at least 1 function. McKinsey Global Survey on AI, 1,363 participants at all levels of the organization, Feb 22–Mar 5, 2024

Top 15 Technology Trends in 2024

McKinsey & Company

In a comprehensive new annual report, McKinsey released their top 15 technology trends for 2024. Generative AI has been a "standout" trend for the last three years, with a large uptick in interest and investment in this industry.

Top 15 technology trends in 2024

1. **Generative AI** algorithms that take unstructured data as input to create new content to automate and accelerate work
2. **Applied AI** using machine learning models to automate processes and enhance productivity
3. **Industrializing machine learning** by utilizing software and hardware solutions to accelerate the development of machine learning solutions
4. **Next-generation software development** tools and technology that improve code development and deployment to improve application processes
5. **Digital trust and cybersecurity** technologies allow businesses to build, scale and maintain stakeholder trust
6. **Advanced connectivity** through telecommunications technologies such as: wireless low-power networks, 5G and 6G cellular, Wi-Fi 6 and 7 and low-Earth-orbit satellites
7. **Immersive-reality technologies** enable real-time interactions in three-dimensional virtual worlds (virtual reality, mixed reality, augmented reality)

Source: (1) McKinsey, "Technology Trends Outlook 2024." July 2024.

Top 15 Technology Trends in 2024 (cont'd)

McKinsey & Company

Top 15 technology trends in 2024

8. **Cloud and edge computing** to optimize for latency, reduce costs, adhere to data regulations and security across locations
9. **Quantum technologies** utilizing quantum mechanics to execute complex calculations exponentially faster, secure communications networks and create sensors with higher sensitively levels
10. **Future of robotics** to build robots that adapt to new, real-life inputs with autonomy and dexterity
11. **Future of mobility** utilizing mobility technologies to improve efficiency and sustainability of land and air transportation
12. **Future of bioengineering** to improve heath and human performance, transform food value chains and create innovative offerings
13. **Future of space technologies** including satellites, launchers and habitation technologies that enable innovative space operations and services
14. **Electrification and renewables** technologies across the entire energy production, storage and distribution value chain
15. **Climate technologies** (beyond electrification and renewables) that mitigate the negative effects of resource consumption on the climate

Source: (1) McKinsey, "Technology Trends Outlook 2024." July 2024.

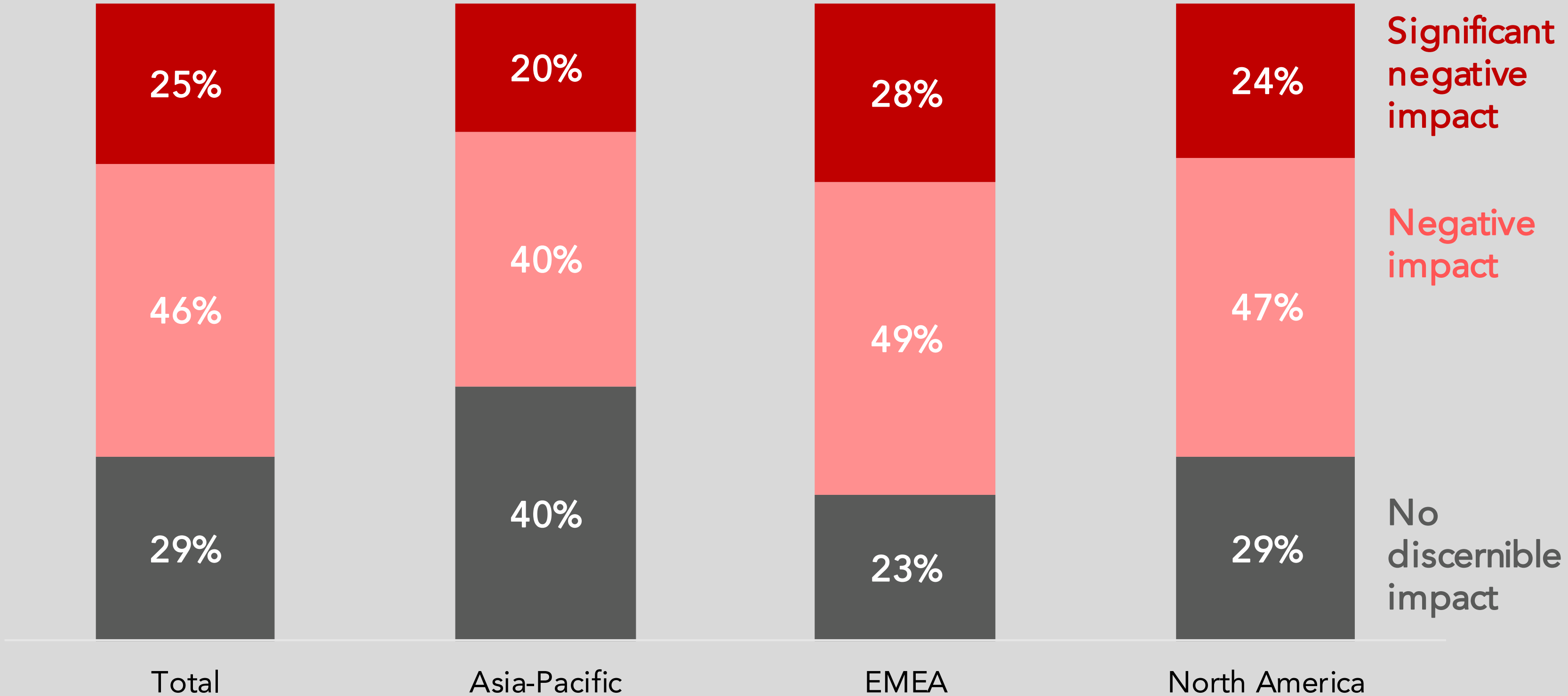
Key Drivers of M&A Activity

6 Global Regulatory Headwinds

Shifting Antitrust Regulation Weighs on Dealmaking

In 2022 & 2023, at least $361 bn of announced M&A transactions were challenged by regulators globally, according to a Bain study. Of the $255 bn of those transactions that were ultimately closed, nearly all required remedies. Increased regulatory objections, longer deal timelines and higher associated merger costs have created trepidation among dealmakers, particularly in the heavily scrutinized healthcare and technology sectors.

Dechert Survey: How do you expect greater scrutiny from antitrust authorities to impact your firm's dealmaking plans over the next 12 months?

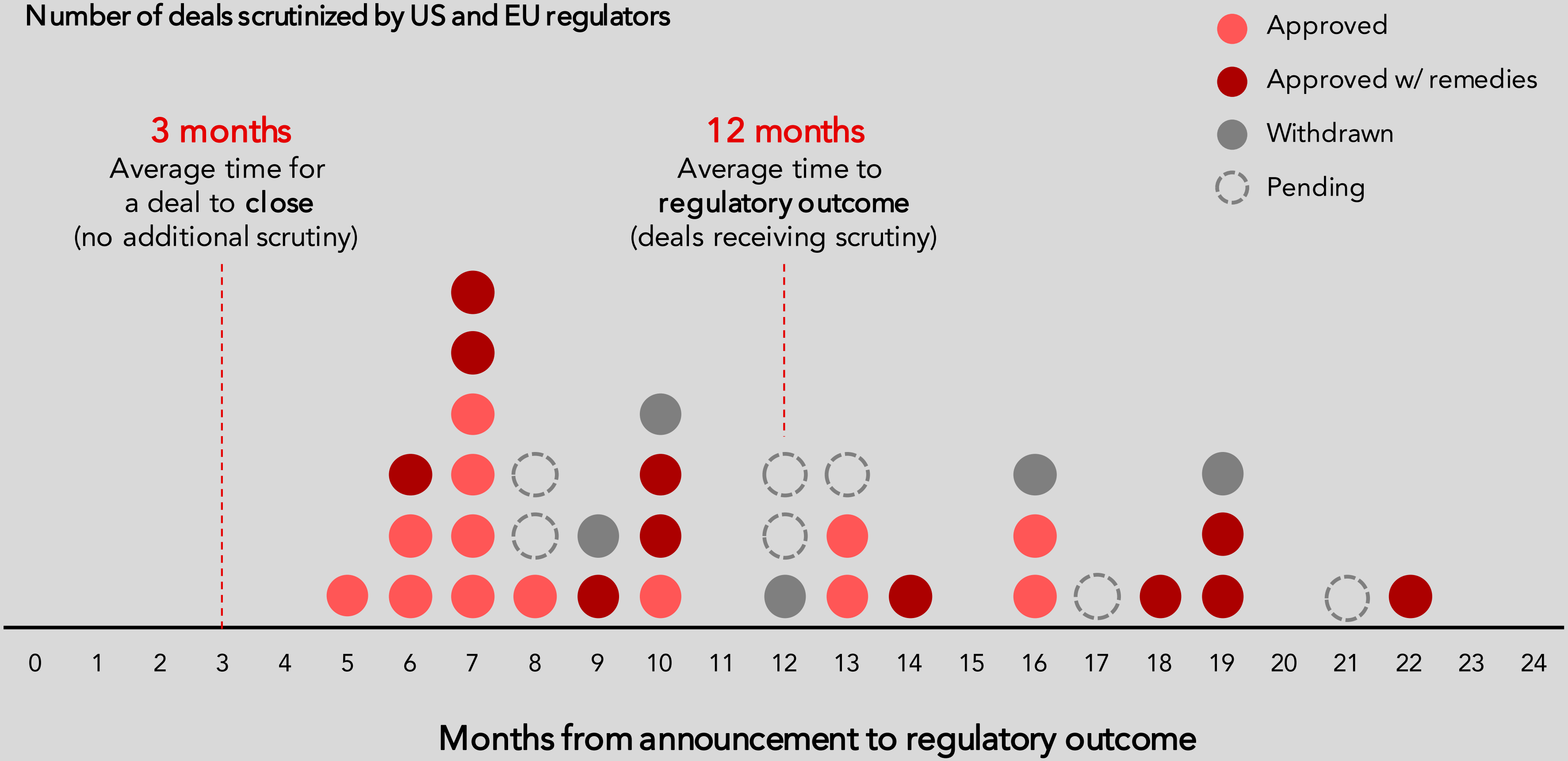


Source: (1) Dechert & Mergermarket, "2024 Global Private Equity Outlook." Survey of 100 senior-level executives within PE firms based in North America, Europe, EMEA, and APAC, conducted in Q2 2023. Bain & Company "Global M&A Report 2024."

Longer Deal Timelines

The average timeline from deal announcement to close, **in the absence of regulatory scrutiny**, across all deal sizes, has been about three months in recent years. However, regulatory scrutiny for more complicated deals can take as long as two years and often require remedies in order to close.

Number of deals scrutinized by US and EU regulators

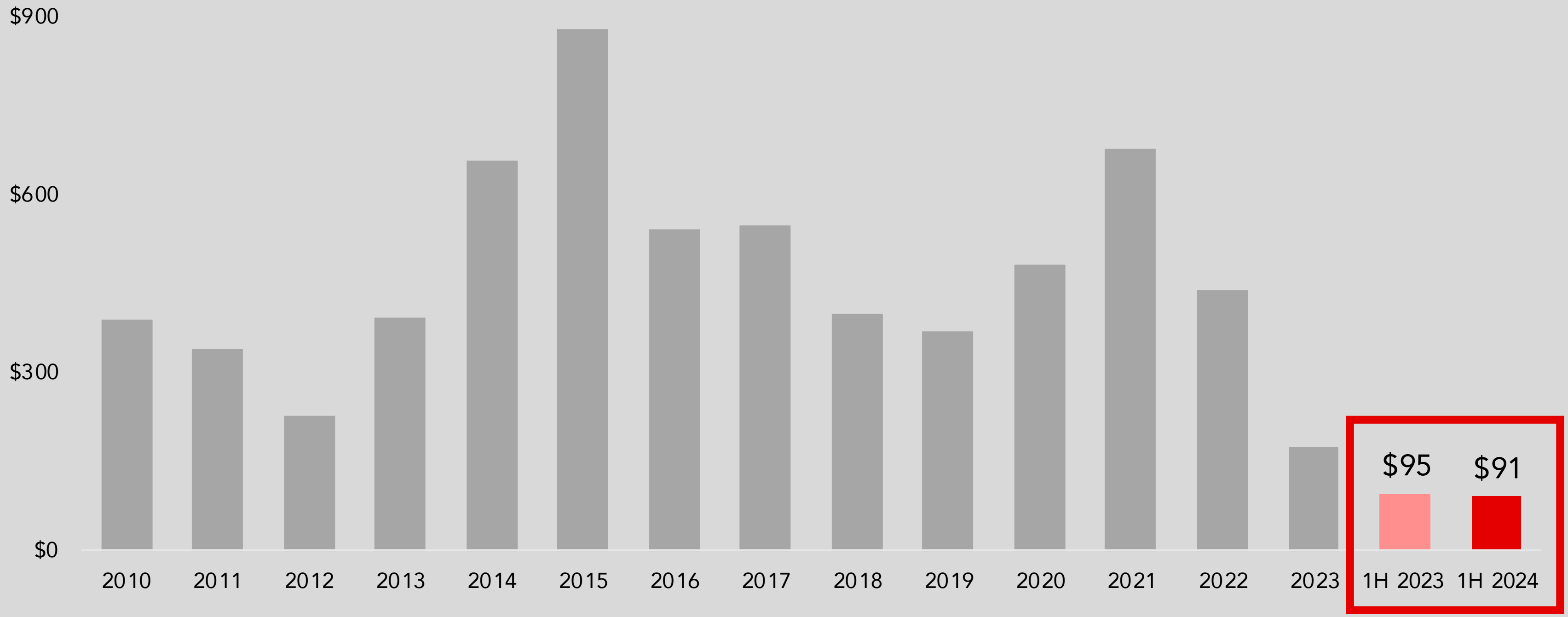


Source: (1) Bain & Company, "Regulation and M&A: How Scrutiny Raises the Bar for Acquirers". Data as of December 18, 2023. Includes deals announced January 1, 2022 – July 13, 2023. Includes one deal that received scrutiny and was withdrawn for nonregulatory reasons. Microsoft-Activision has been approved with remedies but was appealed by the FTC.

Heightened Pre-Launch Deal Scrutiny

Despite elevated concern over more activist regulatory bodies globally, withdrawn transactions have actually declined steadily since 2022. In part, this has been due to lower total deal activity, though regulators credit their enhanced guidelines with stopping potentially anticompetitive deals at the "board room" prior to the "court room."

Global withdrawn / cancelled M&A deal volume, USD bn



"Most anticompetitive deals are no longer getting out of the boardroom."

Jonathan Kanter, US DoJ Anti-trust Division Head

Source: (1) Cortex. Dealogic. 1H data as of August 12, 2024. Includes rank eligible, M&A deals.

Implications for Deal Making

The rising prominence of both megadeals and vigorous regulatory review processes have increased the importance of incorporating expert advisors earlier in deal stage life-cycle

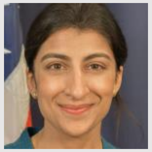
Implications for deal making

- Companies more diligent in anticipating review on higher risk deals
- Increased scrutiny and regulatory risk for transaction completion
- Longer regulatory review periods
- Longer termination periods to allow for potentially protracted regulatory reviews
- Smaller regulatory break-up fees
- Timeline and level of post deal integration
- More complex deal risks for both US and foreign companies in cross-border deals
- Mandatory filings now required for certain foreign acquirors
- Less inbound investment from focus countries (i.e., China)
- Greater uncertainty for buyout funds with complex international ownership structures

US Antitrust & Merger Regulation

US M&A is subject to a complicated lattice of review by broad-based and industry specific regulators. Under the Hart-Scott-Rodino Act of 1974, the US Federal Trade Commission (FTC) and Department of Justice (DoJ) may review proposed transactions that impact US commerce or reduce competition. In addition, the Committee on Foreign Investment in the US (CFIUS) has responsibility for reviewing transactions that involve foreign investments or acquisitions with national security implications.

Key Leaders in US Merger Regulation



Lina Khan
Chair of the Federal Trade Commission

Jonathan Kanter
Assistant Attorney General for DoJ Antitrust Division

CFIUS

- Housed in US Department of Treasury with members from Justice, Homeland Security, Commerce, Defense, State, Energy, USTR, Science & Technology
- Observed by five White House offices
- Jurisdiction has been expanded by Congressional act to encompass technology and transactions involving sensitive personal information

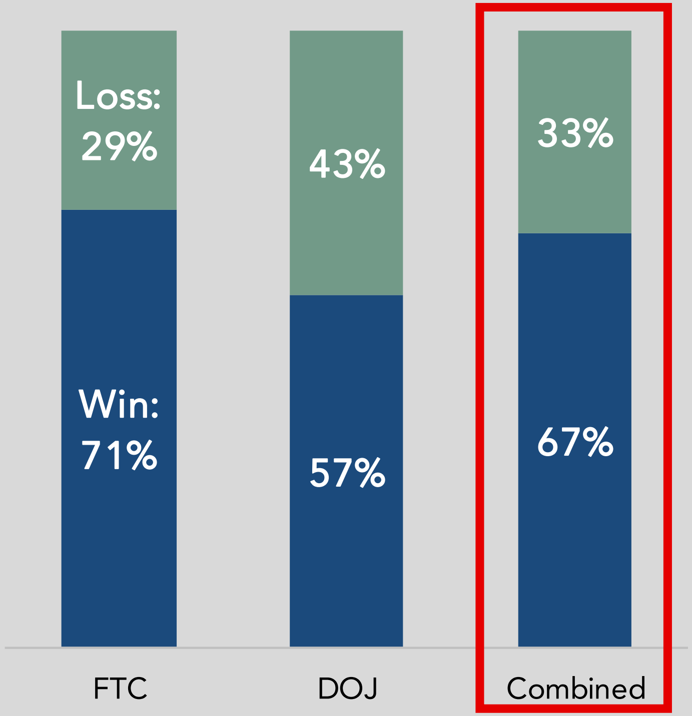
Industry Specific Regulatory Agencies

- **Banking**
- **Telecom**
- **Energy**
- **Defense**
- **Insurance**
- **Healthcare**

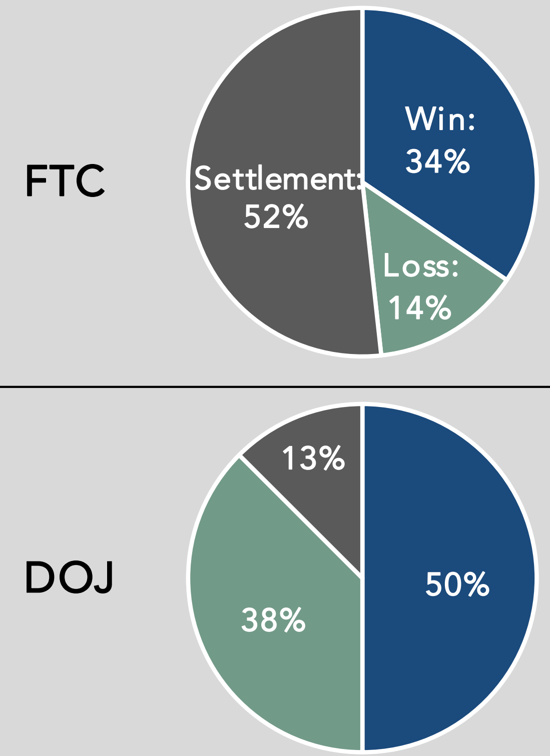
Enhanced US Merger Control Enforcement

In December 2023, US regulators released new merger guidelines, effectively ***lowering the threshold*** for deal scrutiny. In addition, regulators under the Biden Administration have stepped up merger control enforcement, and have been fairly successful. In 2023, US regulators won two thirds of contested deals that resulted in trial. Further, the agencies believe their more hawkish attitude has deterred potentially anti-competitive deals from being announced.

Win rate of US agencies under current leadership as a percent of contested deals resulting in a trial verdict



Outcomes of US agency complaints under current leadership



Source: (1-3) A&O Shearman, "Global trends in merger control enforcement." Three transactions were formally prohibited. In Illumina/GRAIL, the FTC won on appeal, with Illumina then agreeing to sell off GRAIL in light of the court's ruling and the EC's order to unwind the deal. Each agency also secured a permanent injunction – Jet Blue/American Airlines (DOJ) and a healthcare technology transaction (FTC). A further seven deals were abandoned due to US antitrust concerns.

Enhanced US Antitrust Merger Guidelines (2023)

In December 2023, the US Federal Trade Commission (FTC) and Department of Justice (DoJ) released new guidelines for assessing whether a merger presents sufficient risk to warrant agency scrutiny and potential enforcement action. The guidelines apply to both horizontal and vertical mergers and supersede all prior published guidelines. The guidelines take a structural approach to analyzing markets, expand the scope of review, and effectively lower the bar to scrutinize transactions.

Key points in the 2023 merger guidelines

Market Share	Agencies will presume a merger is illegal if it will result in a **Herfindahl-Hirschman index (HHI) of at least 1,800 and an increase in HHI of 100** from pre-merger levels, significantly lowering the bar from the 2010 Horizontal Merger guidelines of 2,500 and 200, respectively.
"Dominant" Market Position	A company "approaching monopoly power" demonstrated either by a firm's power to raise price or reduce quality or by the merger resulting **in at least 30% market share** will be presumed to be illegal.
Consumer Welfare Standard	Guidelines take a structural approach to markets by focusing on the **30% market share threshold** rather than the consumer welfare standards.

Source: Skadden, "DOJ and FTC Release Final 2023 Merger Guidelines Formalizing Aggressive Merger Enforcement Playbook". White & Case, "U.S. Antitrust Agencies Finalize Changes to the U.S. Merger Guidelines". Mercatus Center, "Decoding the 2023 FTC and DOJ Merger Guidelines: Insights into Shifting Antitrust Enforcement."

Enhanced US Antitrust Merger Guidelines (2023)

Key points in the 2023 merger guidelines, cont'd

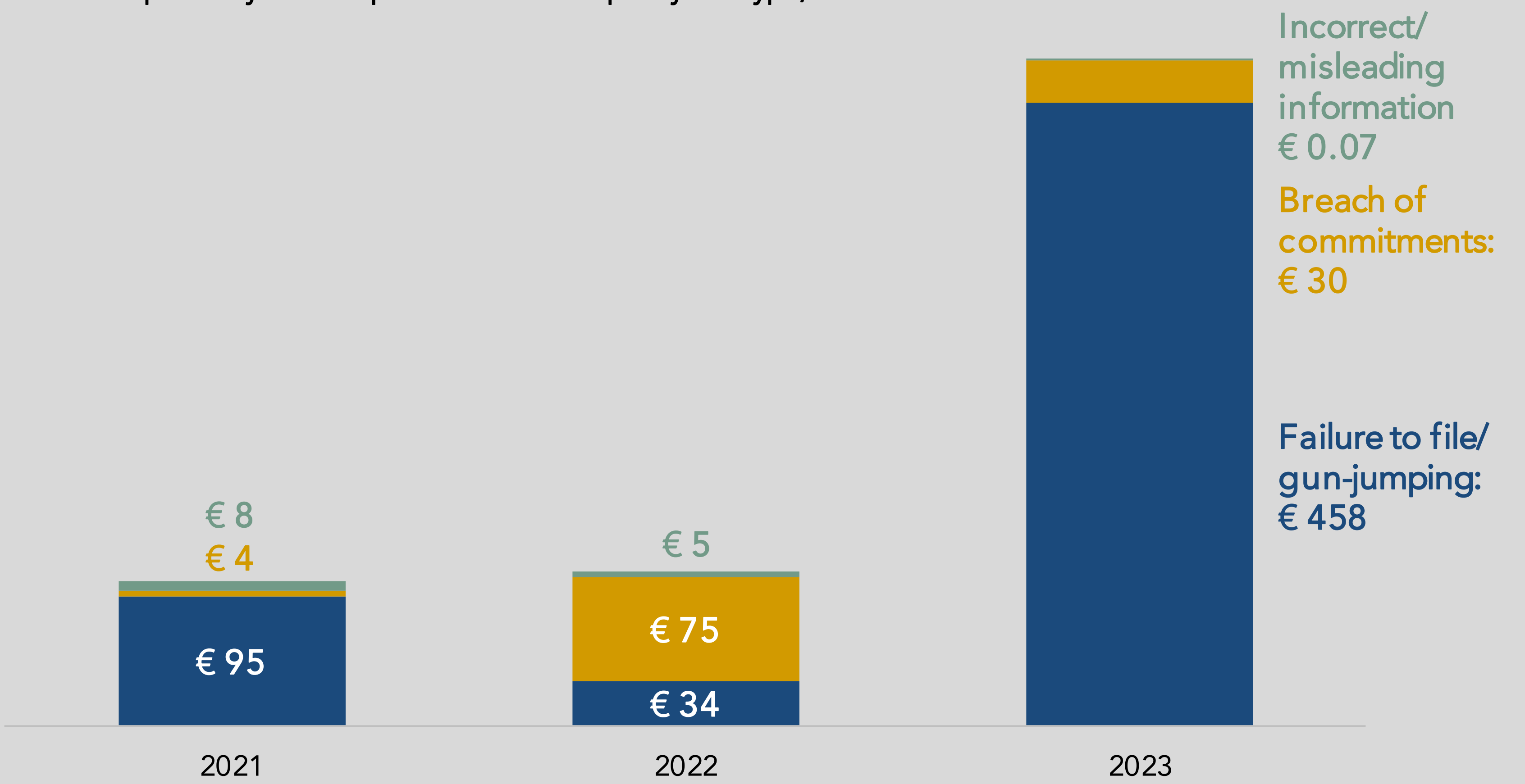
Procompetitive Effects	Guidelines **de-emphasize procompetitive effects** of a merger by raising the bar of demonstrating those benefits.
Vertical Mergers	Vertical mergers that would give merging parties the ability and incentive **to weaken or exclude rivals** would be presumptively illegal.
Access Control	Guidelines highlight the risk of mergers that give an acquiring firm **control over access to products, services or customers** that rivals use to compete.
Ecosystem Competition	Addresses merger situations where an incumbent firm operates in a wide array of products and services and may be partially constrained by a compilation of products and services from other providers. The approach allows **scrutiny not only of the acquisition of a direct competitor but also of a niche or partially overlapping service.** The approach is novel in the US but embraced by agencies in the UK and EU.

Source: Skadden, "DOJ and FTC Release Final 2023 Merger Guidelines Formalizing Aggressive Merger Enforcement Playbook". White & Case, "U.S. Antitrust Agencies Finalize Changes to the U.S. Merger Guidelines". Mercatus Center, "Decoding the 2023 FTC and DOJ Merger Guidelines: Insights into Shifting Antitrust Enforcement."

EU Regulators Charge Record Fines

In 2023, total fines paid in Europe for procedural merger control infringements quadrupled. Similar to the US, the EU regulators have introduced heightened regulatory guidelines for M&A while setting out clear warnings to deal markers on gun-jumping and deal screening information accuracy.

Total fines imposed by the European Commission split by fine type, EUR mn



Source: (1) A&O Shearman, "Global Trends in Merger Control Enforcement" (April 2024).

Trends in Global M&A

7

Resurgent "Scale & Scope" Megadeal Activity

Resurgent "Scale & Scope" Megadeal Activity

In the 12 months through the end of the 1H 2024, there were13 deals over $20 billion in value. Of those transactions, all but one involved a US acquiror or target, or both. "Scale consolidation" deals dominated, with the energy sector accounting for 5 of the 13 largest deals in the last 12 months. By contrast, large tech sector deals were more "growth oriented scope" transactions.

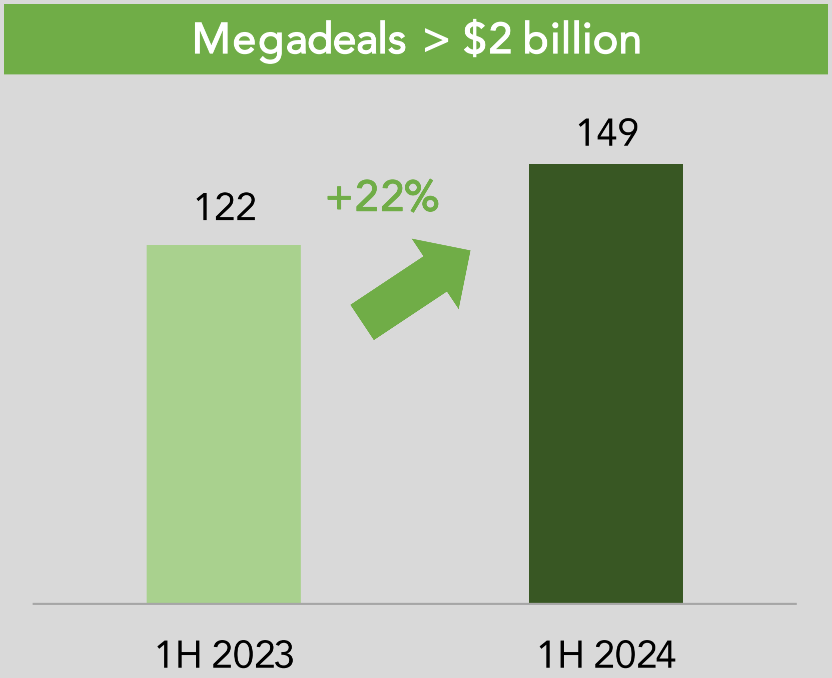
	Acquiror	Target	Deal size	Deal type	Industry
1.	Exxon Mobil	Pioneer Natural Resources	$68 bn	Strategic M&A	Energy
2.	Chevron	Hess Corp	$60 bn	Strategic M&A	Energy
3.	Existing Shareholders	Kenvue Inc	$42 bn	Spinoff	Consumer
4.	Existing Shareholders	GE Vernova Inc.	$38 bn	Spinoff	Energy
5.	Capital One	Discover	$35 bn	Strategic M&A	Finance
6.	Synopsys	Ansys	$34 bn	Strategic M&A	Tech
7.	Cisco Systems	Splunk	$30 bn	Strategic M&A	Tech
8.	Existing Shareholders	Sirius XM Holdings	$26 bn	Spinoff	Telecom
9.	Diamondback Energy	Endeavor Energy Resources	$23 bn	Strategic M&A	Energy
10.	KKR / ADIA / F2i SGR	FiberCop SpA	$23 bn	Sponsor	Telecom
11.	Existing Shareholders	Veralto	$23 bn	Spinoff	Tech
12.	ConocoPhillips	Marathon Oil	$22 bn	Strategic M&A	Energy
13.	Merck & Co	Daiichi Sankyo Co	$21 bn	Strategic M&A	Healthcare

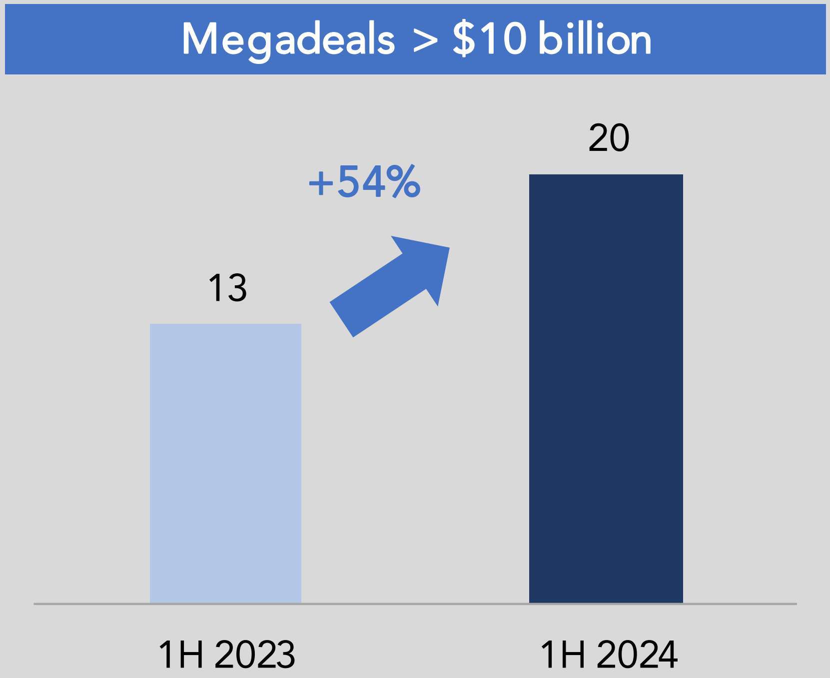
Source: (1) Cortex. Dealogic. Data as of June 30, 2024. Listed deals include announced, active or completed deals but does not include deals that have been declined. Deals from July 2023 through June 2024.

Synergies & Growth Driving Megadeal Resurgence

Though the total number of transactions has declined in 2024, global deal volumes have risen on the significant increase in large M&A deals YTD. Globally, the number of megadeals > $2 and $10 billion have increased about 20% and 55%, respectively.

Global M&A Megadeals (1H 2023 & 1H 2024)





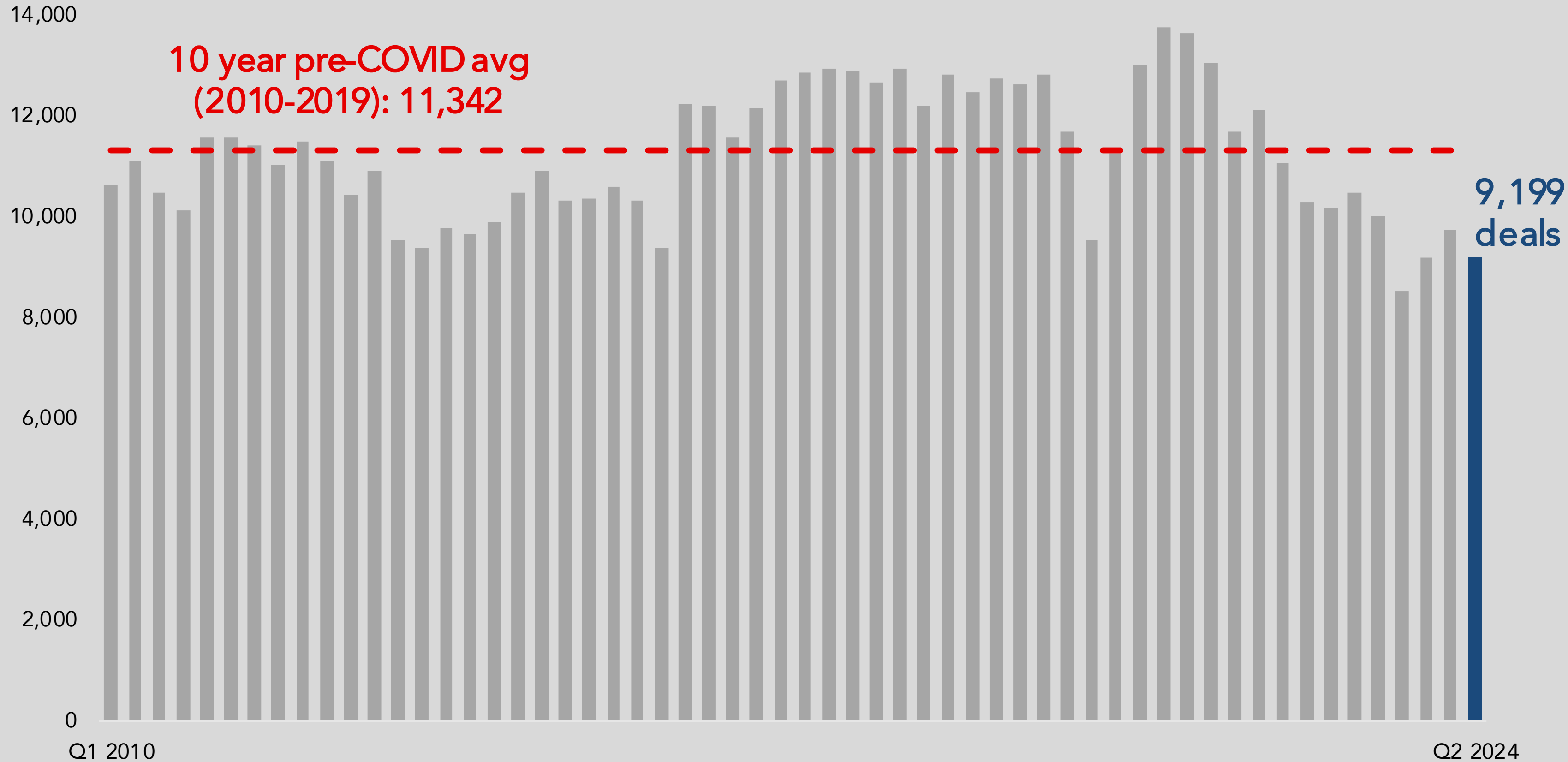
Resurgent 2024 megadeal activity had been driven by large deals designed to deliver both scale (synergies) and scope (growth) – not necessarily one or the other

Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. Greater than or equal to $2bn and $10bn.

Deal Count Well Below Historical Averages

In 2023, deal volume declined 15% while the number of transactions declined only 13%, indicating a greater propensity for smaller deals. In 2024, the trend has reversed. 1H 2024 volumes are up 20% year-over-year while the number of deals declined 8% y/y. At 9,199, the number of deals in Q2 2024 is well below historical averages.

# of global M&A deals, quarterly



Source: (1) Dealogic. M&A volumes includes eligible deals, excluding carveouts. 1H 2024 data as of August 12, 2024. King & Spalding "2024 M&A Outlook: Building on Dynamic Dealmaking and Resilience from 2023, and Capitalizing on Emerging Developments"

Trends in Global M&A

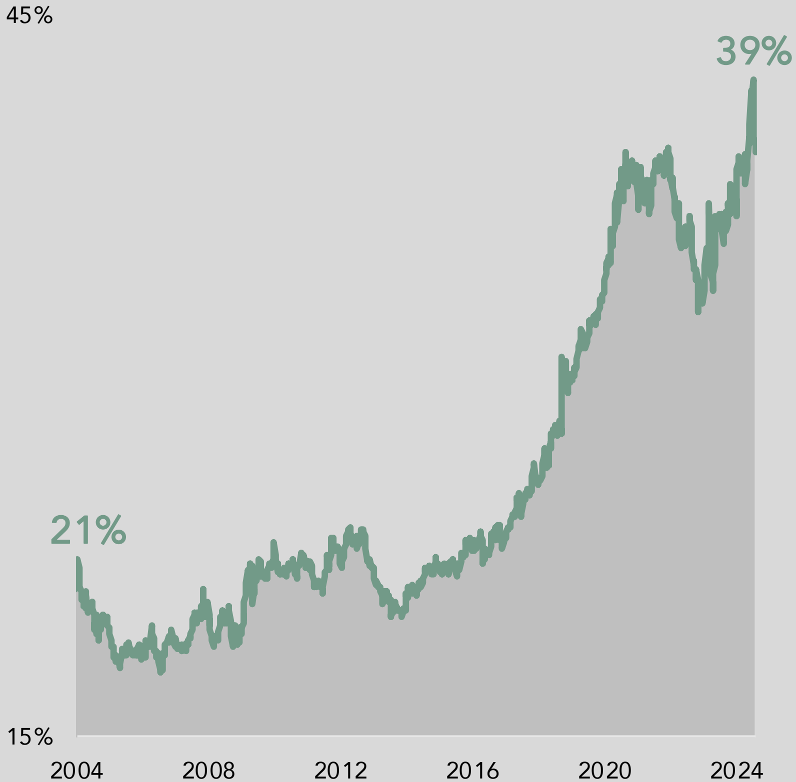
8 Tech Recaptures M&A Leadership Position

Technology's Rising Prominence in Markets

As the tech sector has become more prominent in the economy and global markets, so too has tech-driven M&A become a more pronounced part of business strategy and M&A activity.

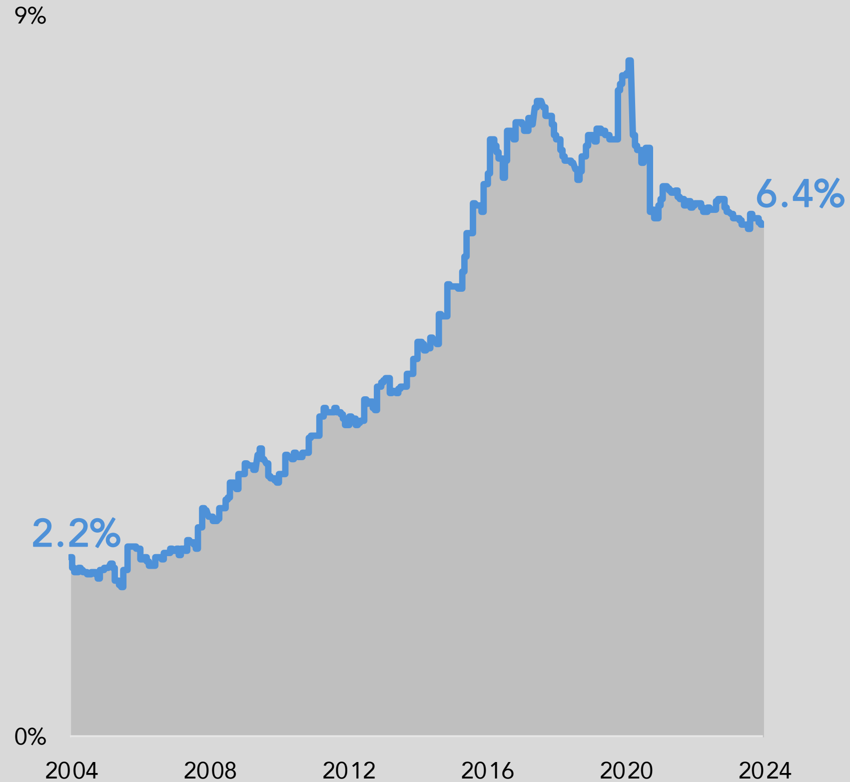
US equity markets

Technology as a % of S&P 500 market cap



USD investment grade credit markets

Technology as % of USD IG index

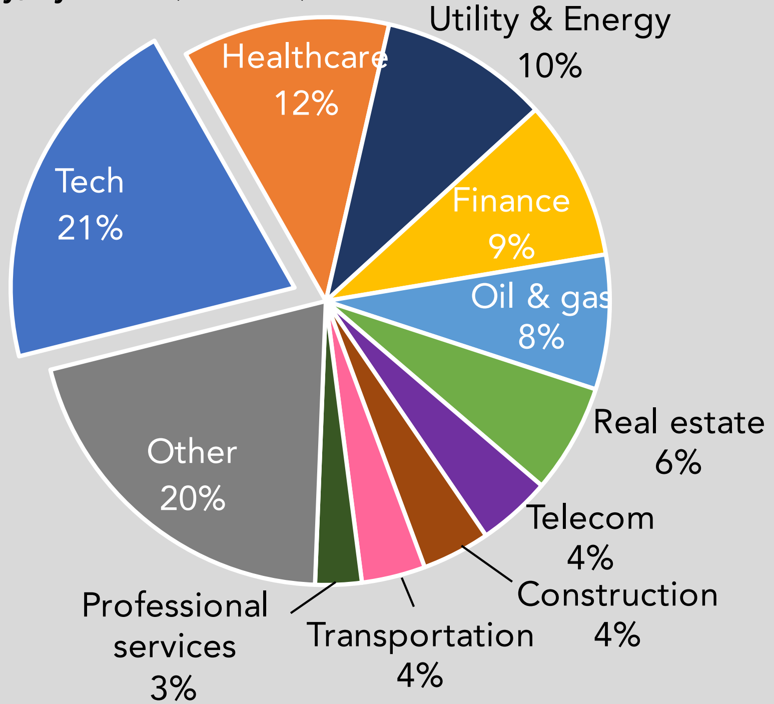


Source: (1-2) Bloomberg. Data as of July 16, 2024. Credit is ICE BofA. Technology is US technology and electronics index. Face value.

Tech Recaptures Historic Leadership Position in M&A

In 2023, US energy sector consolidation drove M&A activity. In 2024, the tech sector has recaptures its historic leadership role in global M&A activity. An analysis by PwC found that there were eight AI-influenced deals worth over $1 bn in just the first four months of 2024 vs. eight deals in the entirety of 2023. Looking ahead, technological innovation and integration will continue to be a key driver of business strategy and acquisition activity.

Breakdown of global M&A activity, by sector (1H 2024)

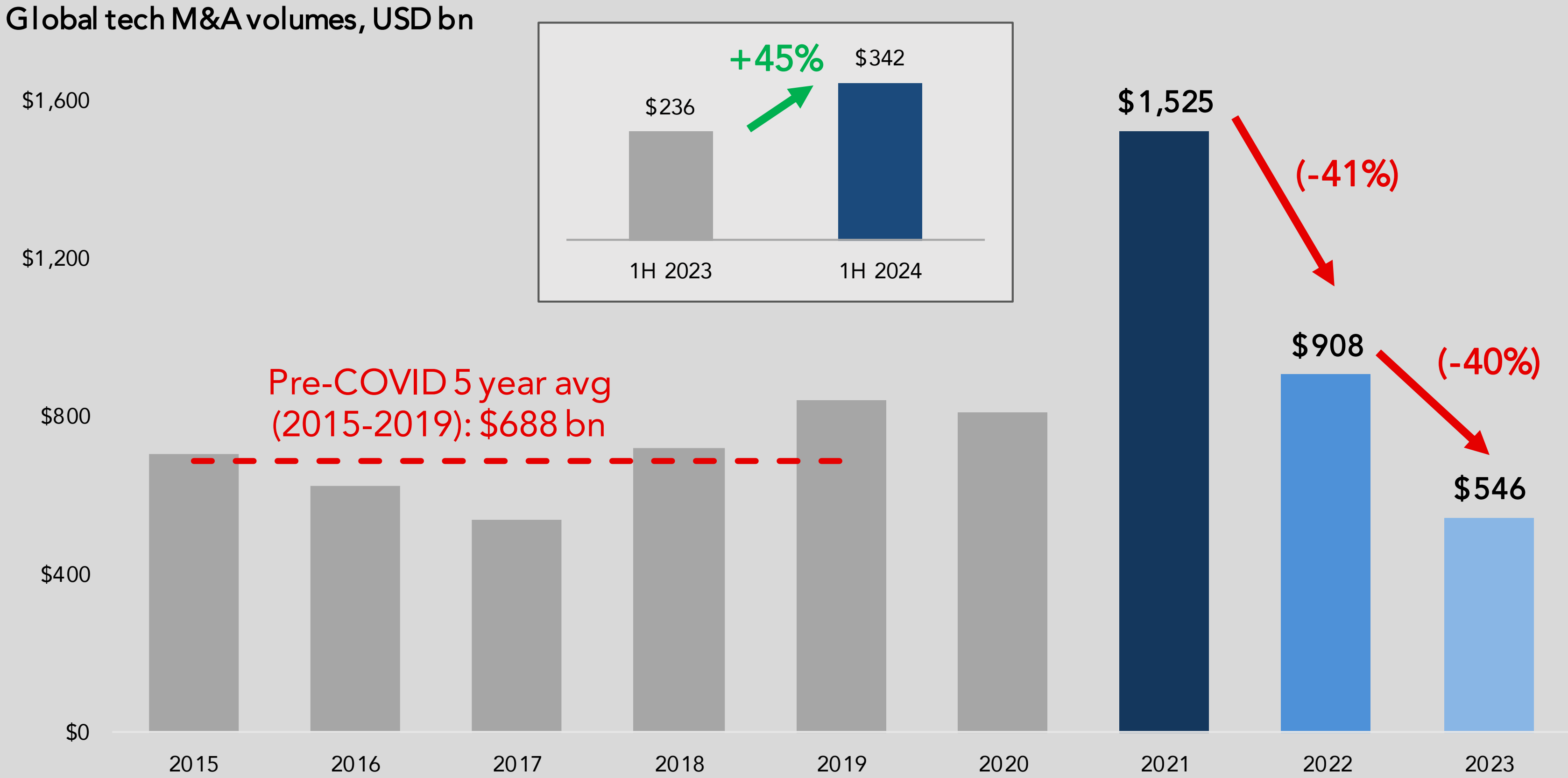


Though technology remains the most scrutinized sector for global regulators, tech-driven M&A has re-established itself at the forefront of the M&A recovery underway globally

Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals.

Tech Sector Rebounding From 2-Year Decline

After a slower year in 2023, technology has re-emerged as an important driver of global M&A activity. While access to productivity enhancing technology has become critical to business strategy, a more complex geopolitical backdrop has also increased regulatory focus on the technology sector. We expect cross-border acquisition and licensing of critical technology to be subject to heightened regulatory scrutiny and longer pre-closing lead times.



Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. Tech is target industry.

Trends in Global M&A

9 Corporate Deals Outpace Private Equity

Corporate Deals Outpace Private Equity

With interest rates high, corporate deals accounted for nearly 75% of 1H global M&A volumes. We expect strategic buyers to remain more active than financial buyers in the months ahead.

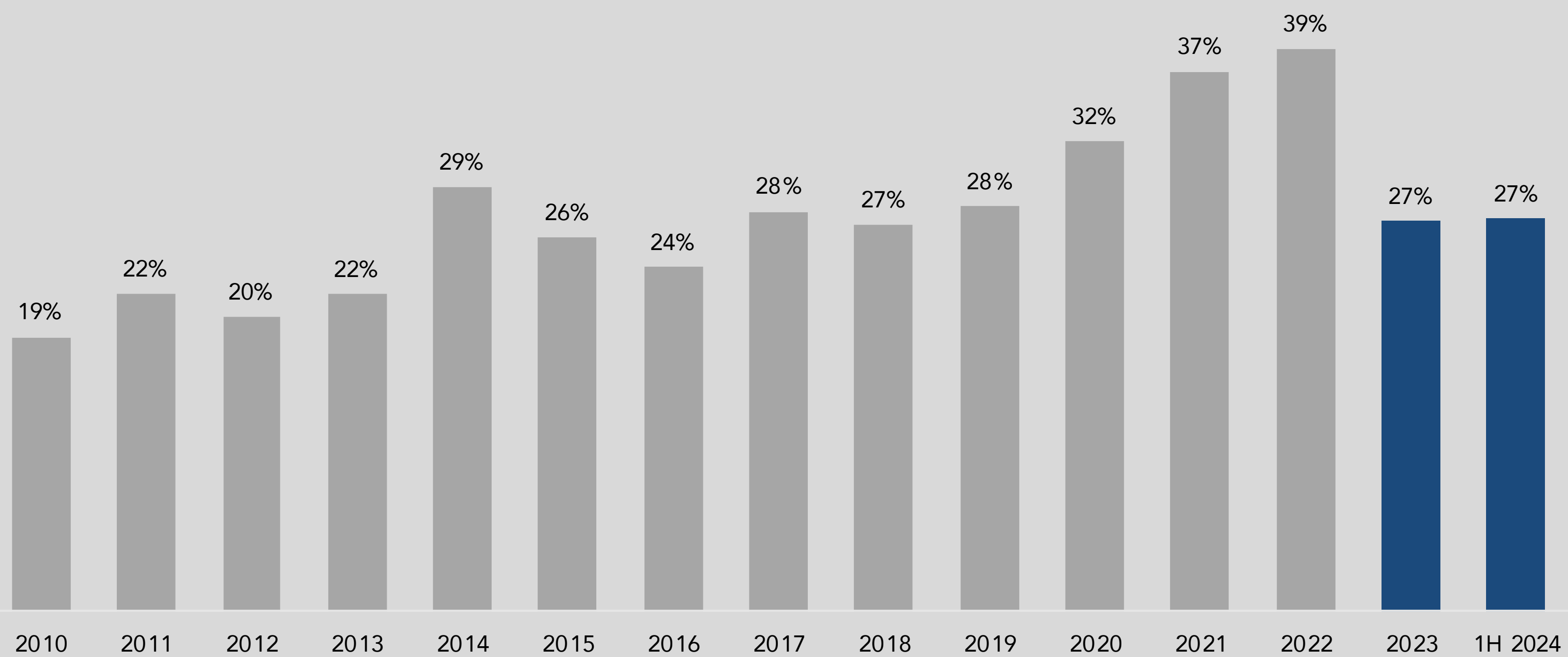
Key drivers of corporate dominance in 2024 global M&A recovery

1. Higher rates dragging debt-fueled buyout activity
2. S&P 500 earnings recovery
3. Fortified (cash-rich) post-COVID corporate balance sheets
4. Elevated stock prices strengthening "acquisition currencies"
5. Resurgent tech-driven activity (robust sector, acquiring capabilities, innovation pressure)

Subdued Recovery for Private Equity

For the first time ever, global private equity volumes lost market share in 2023 to strategic M&A activity from both a deal value and deal count perspective. With higher interest rates and more limited exit opportunities (softer IPO market), PE activity remains a missing link in a broader M&A recovery. Looking ahead, a break in the "exit logjam", allowing for meaningful distributions to LPs coupled with record PE dry powder should set the stage for a more sustained move higher in M&A activity.

Sponsor-backed share of global M&A volumes

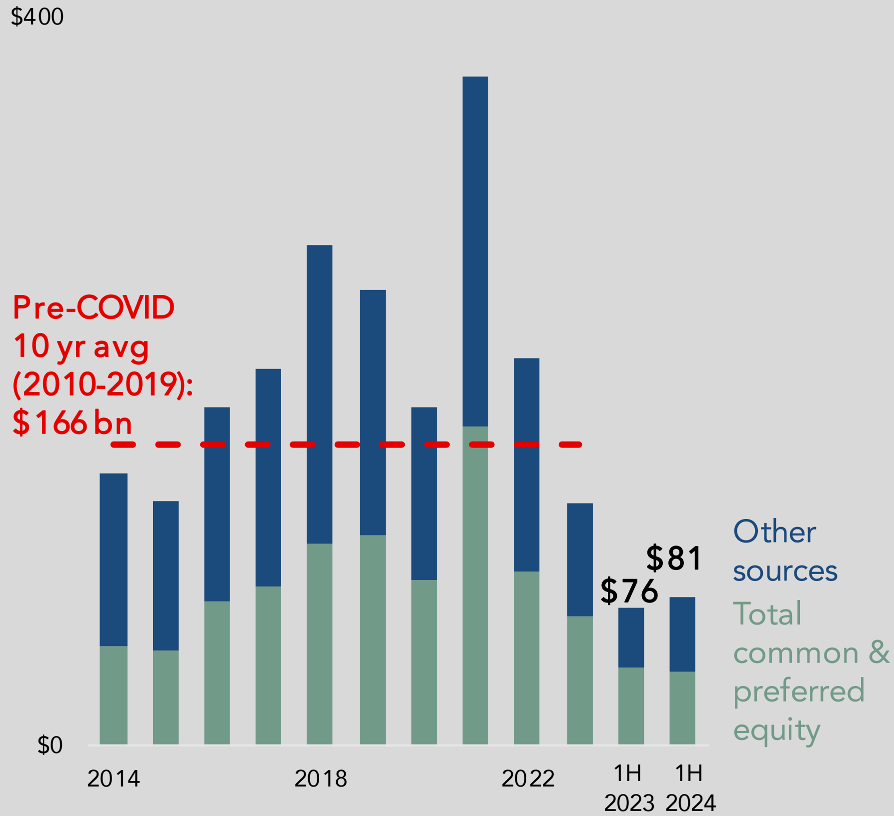


Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals.

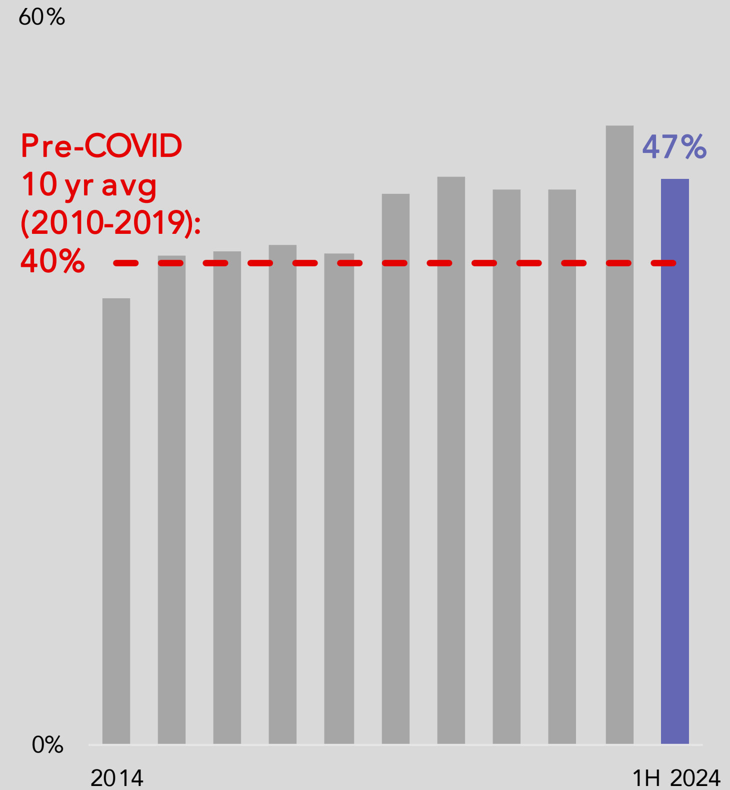
Early Innings of LBO Recovery

LBO activity declined significantly in 2023 as markets adjusted to the higher rate environment. In addition to lower total activity, leverage multiples declined from 11.9x in 2022 to 10.8x in 2023 while equity contributions reached an all-time high of 51%. In 2024, LBO activity has rebounded, up 7% year-over-year, though equity contributions remain elevated relative to historical standards.

Annual US LBO transaction volume, USD bn



Equity contribution

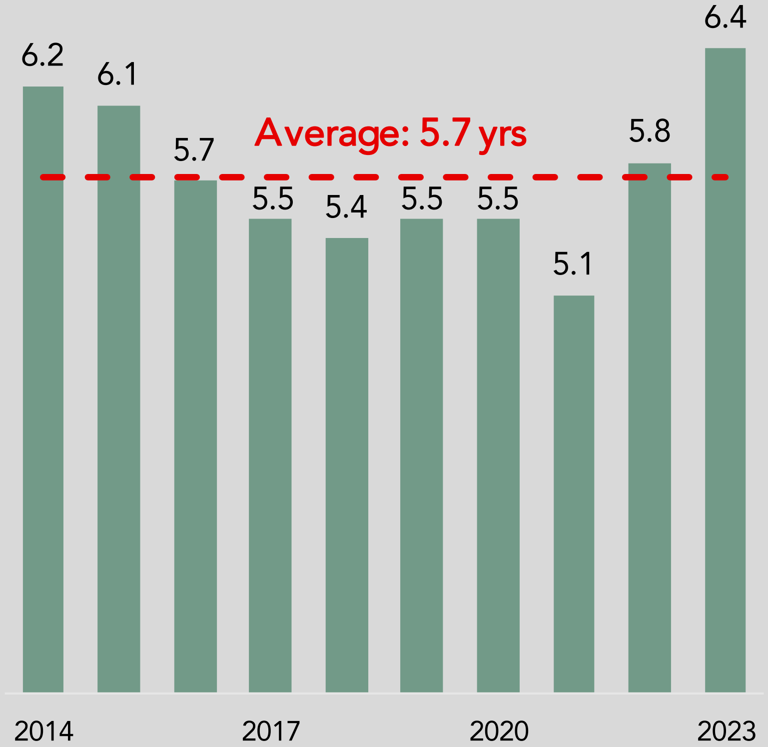


Source: (1-2) LCD, "US LBO Debt Report: Q2 2024". Includes all total sources (loans, secured debt, unsecured debt, sub debt, and equity) involved in leveraged buyouts. Equity contribution only reflects contributed equity.

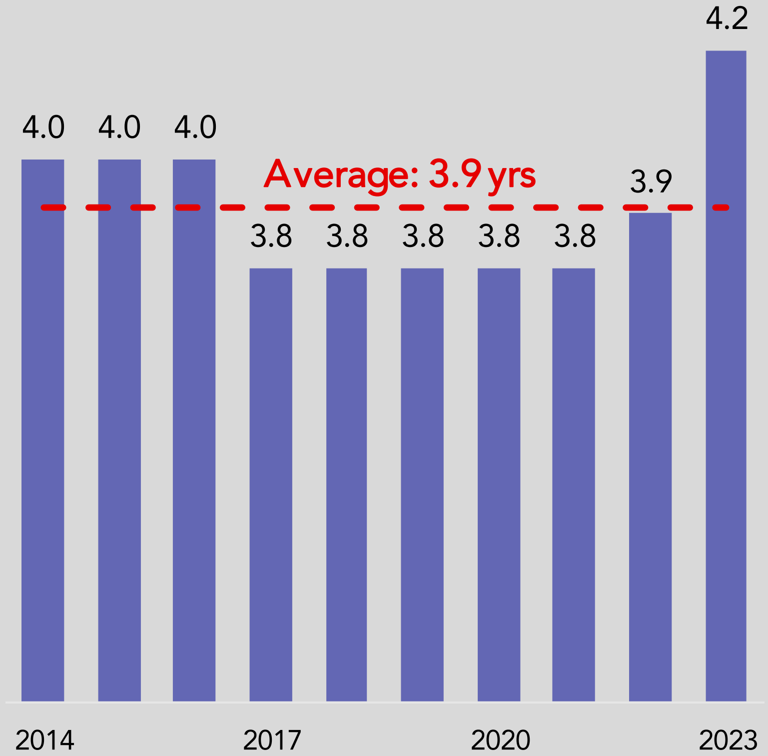
Longer Portfolio Hold Times

The more challenged exit market has created a stockpile of unsold assets in PE portfolios. According to data from Pitchbook, in 2023, the median holding period of US PE investments exited reached 6.4 years while the median holding period for PE portfolio companies reached 4.2 years.

Annual median exit hold times, years



Cumulative median existing hold times, years

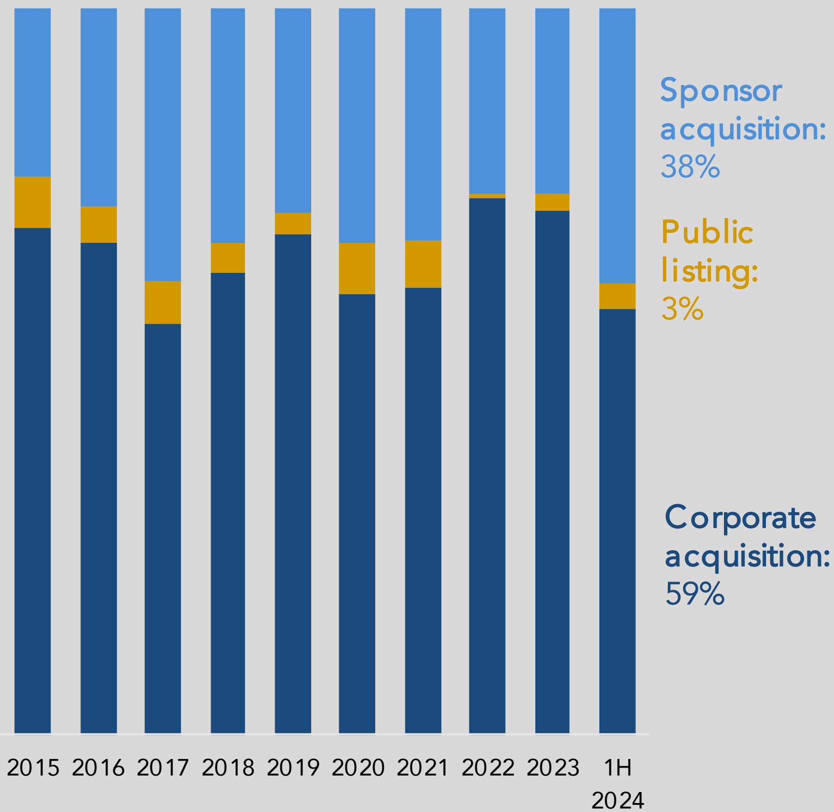


Source: (1-2) Pitchbook, "What Pitchbook analysts predict for PE for 2024". Data through September 30, 2023.

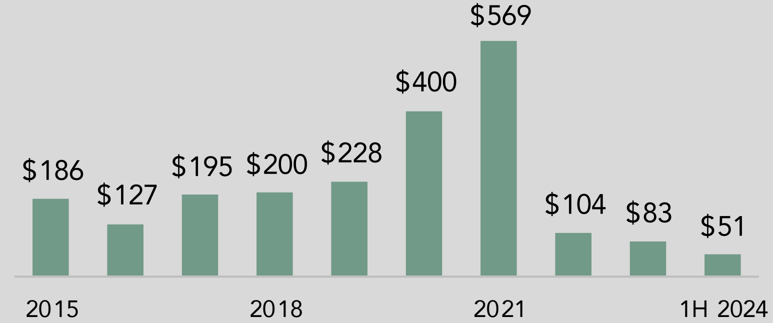
More Challenging PE Exit Market

Global and US IPO markets nearly ground to a halt in 2022 and 2023. Similarly, the start of the rate hiking cycle made PE-to-PE exits more challenging. Against this backdrop, Private Equity exits to strategic buyers reached record levels in the post pandemic period. In 2024, rebounding IPO markets and declining rates have improved the backdrop for PE activity.

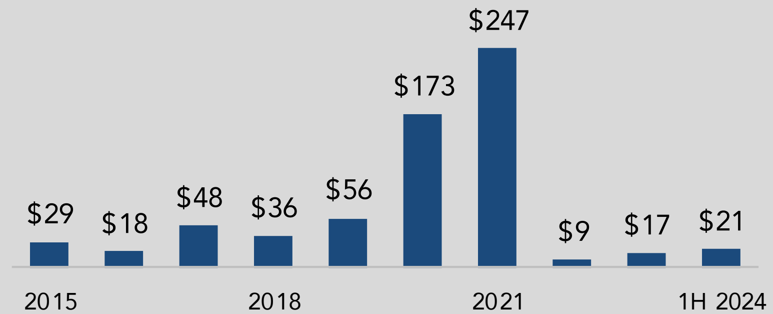
Global PE exit value by type



Global IPO volumes, USD bn



US IPO volumes, USD bn

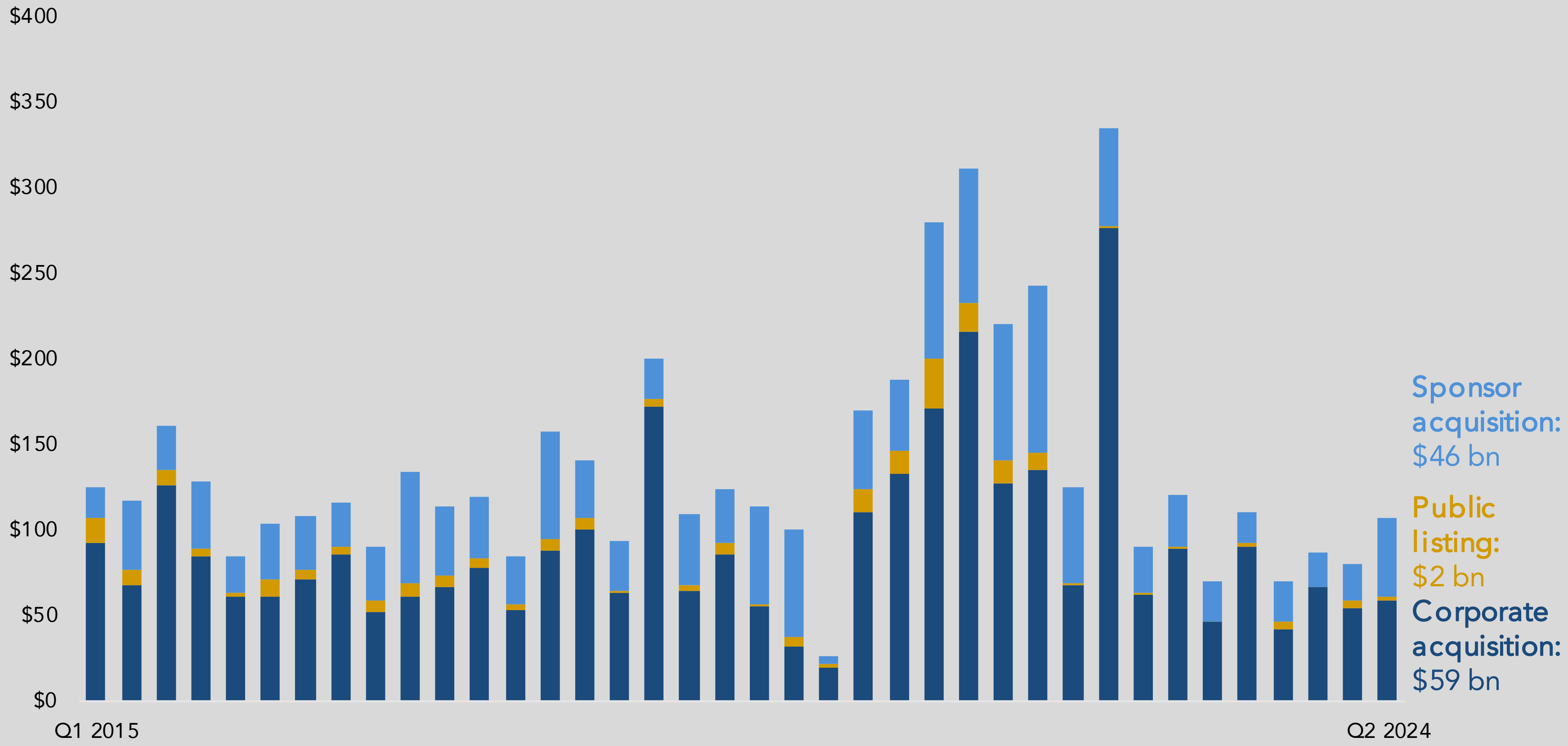


Source: (1-3) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible exits. Not including add-ons. Sponsor acquisition is secondary buyout. Corporate acquisition is trade sale.

Private Equity Exits May Pickup in 2H 2024

US private equity exit deal volume rose 4% to $107 bn in 1H 2024, compared to the same period last year. While encouraging, this comes off the lows of 2023, the worst year for sponsor exits since 2013 (excluding 2020). Private equity firms expect to see increased exit activity in the 2H of the year as the Federal Reserve transitions toward policy easing.

Quarterly financial sponsor exits, USD bn

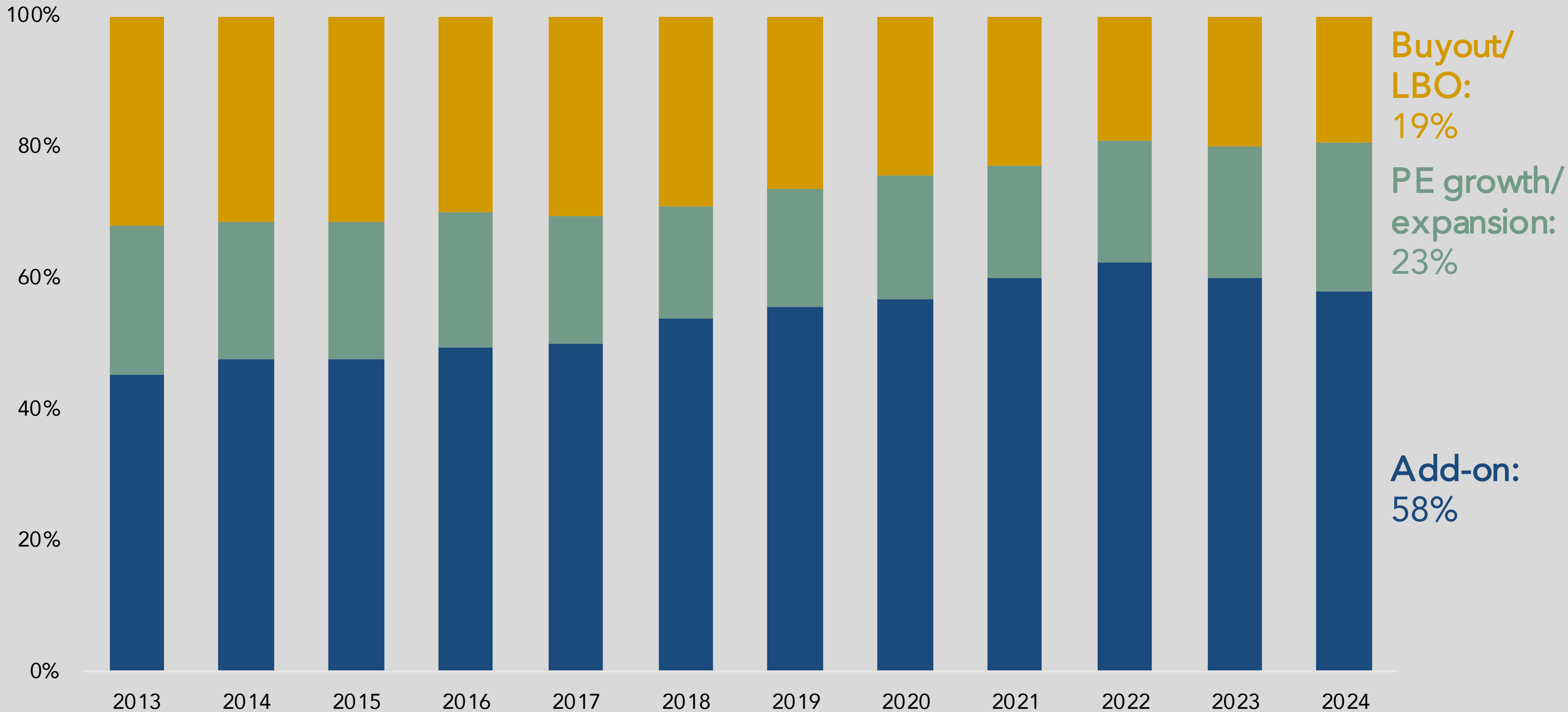


Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible exits. Not including add-ons. Sponsor acquisition is secondary buyout. Corporate acquisition is trade sale.

“Buy-and-Build” vs. Platform Acquisitions

Since the start of the rate hiking cycle, platform deals have been more challenging from a return perspective. Instead, PE firms have focused more heavily on add-on deals and all-cash growth equity transactions to adopt a “buy-and-build” strategy. Add-on transactions, unlike LBOs or platform acquisitions are smaller dollar size and allow leverage of existing credit facilities, making them more feasible in the current high interest rate environment.

Share of US PE deal count, by deal type



Source: (1) Pitchbook, “Q2 2024 US PE Breakdown”. Data through June 30, 2024.

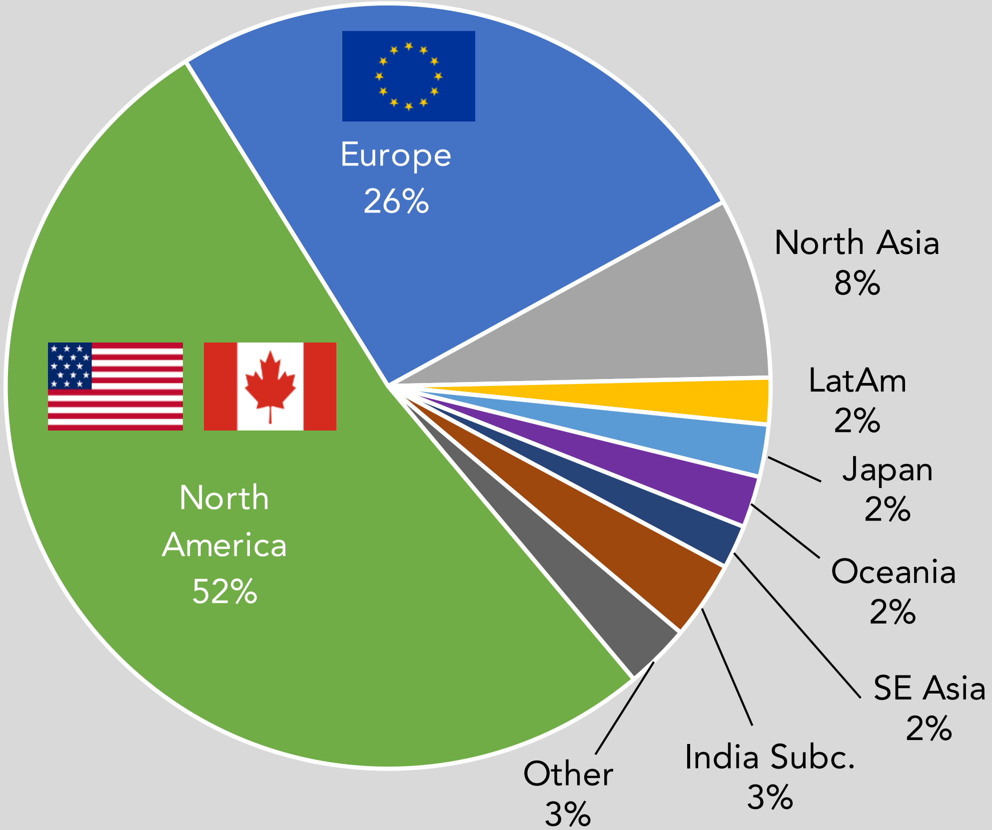
Trends in Global M&A

10 US & Europe Lead Regional Activity

Outsized US & European Market Share

M&A activity in North America and Europe accounted for over 75% of total deal volumes in 1H 2024. European deal activity was the second largest regional category at 23%, though posted the highest year-over-year growth among regions.

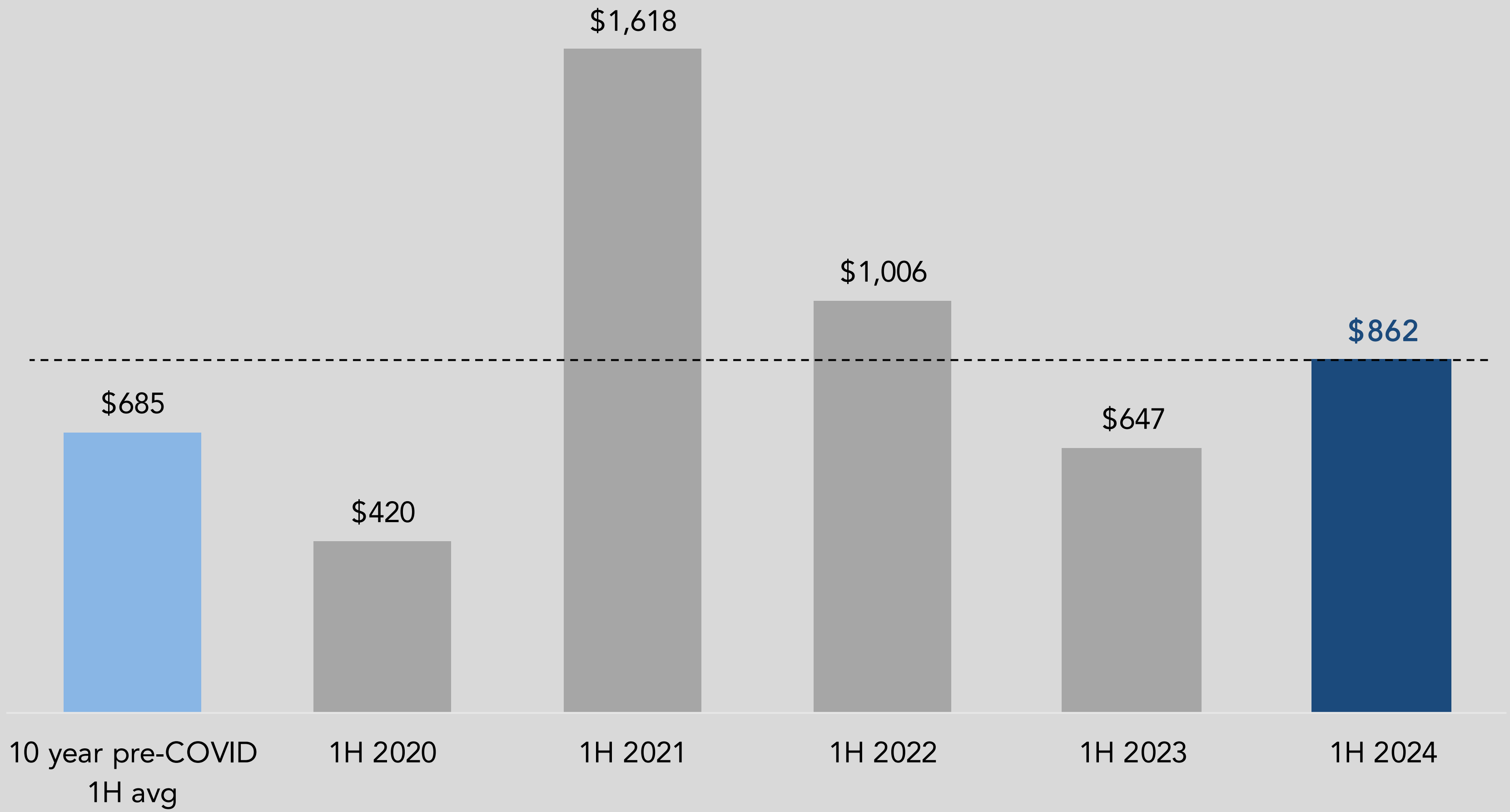
Breakdown of Global M&A Activity (1H 2024)



Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals.

North America M&A Above Pre-COVID Levels

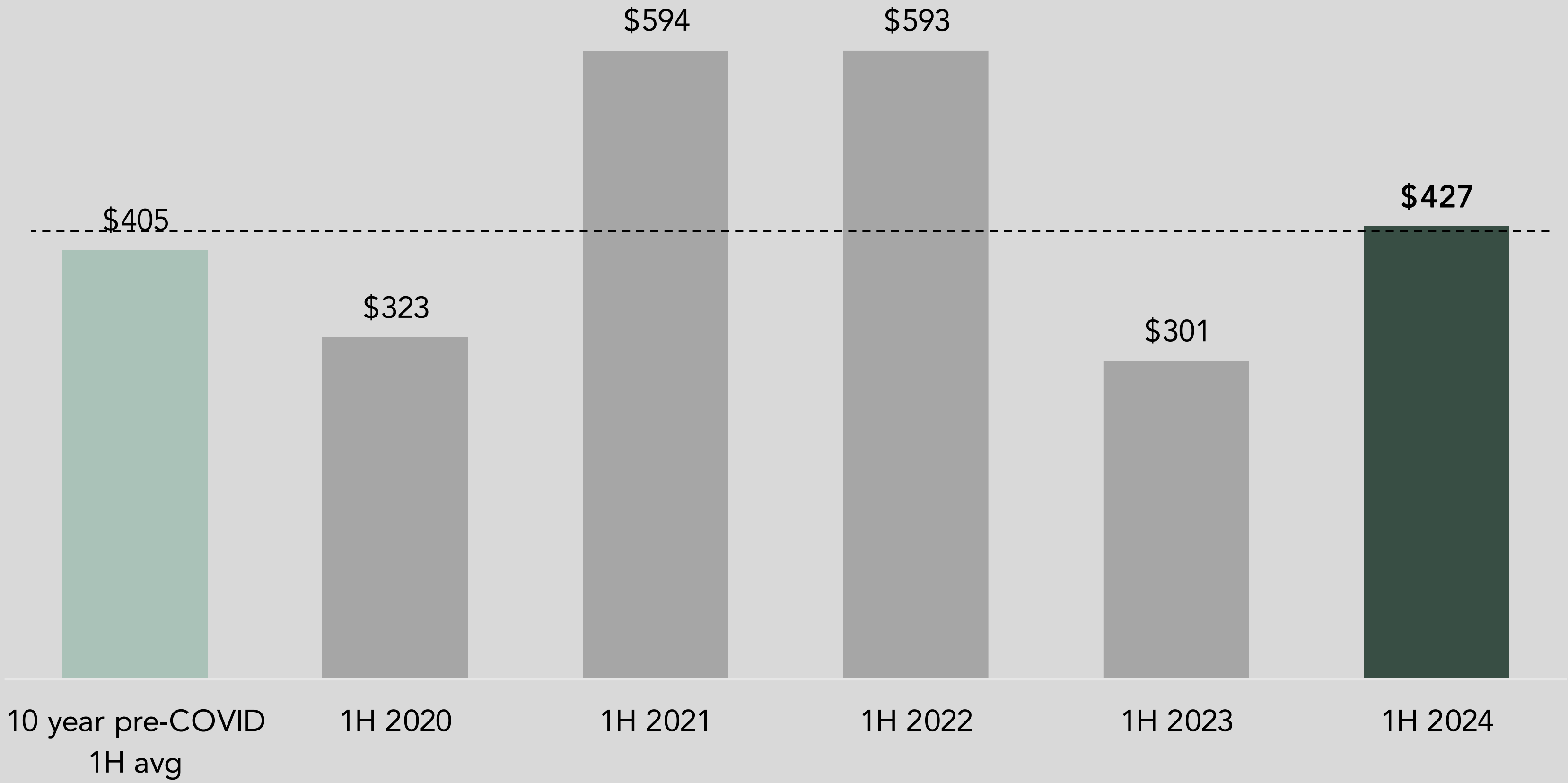
North America M&A volumes, USD bn



Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. Regional breakdown by target.

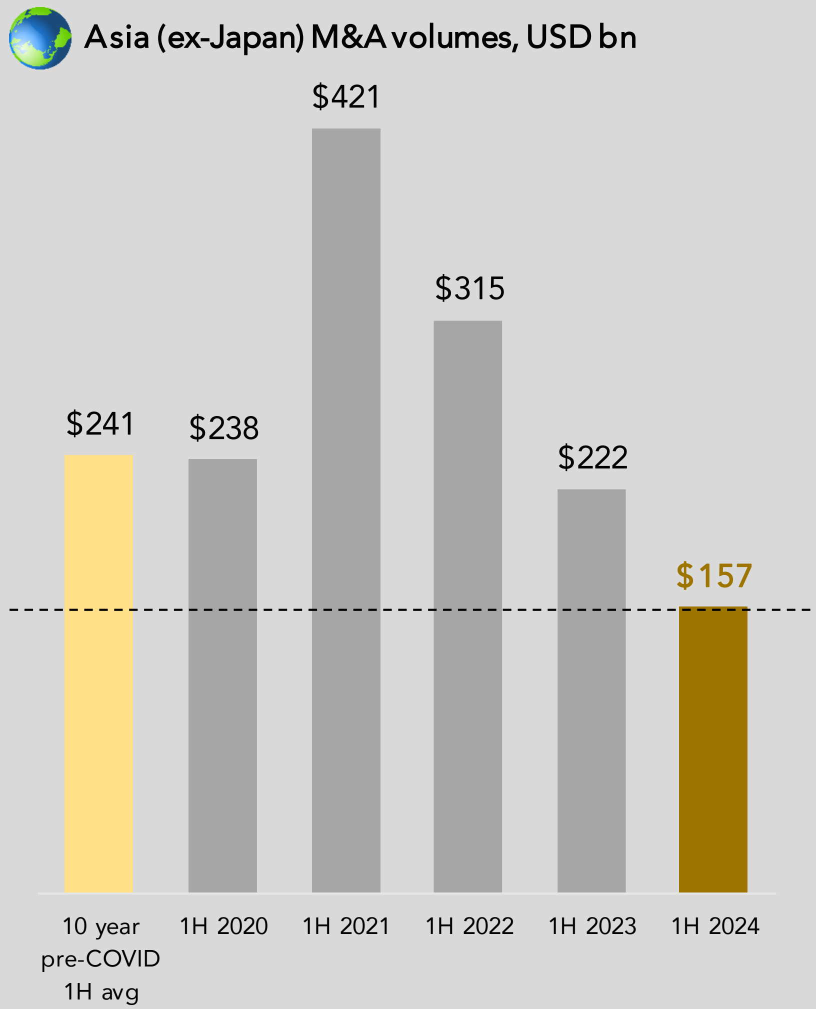
Europe M&A Returns to Pre-COVID levels

Europe M&A volumes, USD bn



Source: (1) Cortex. Dealogic. Data as of July 16, 2024. Includes rank eligible, M&A deals. Regional breakdown by target.

Asia M&A Running Behind Pre-COVID Levels



Source: (1-2) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals. Regional breakdown by target. Asia includes Central Asia and the Caucasus, north Asia and SE Asia.

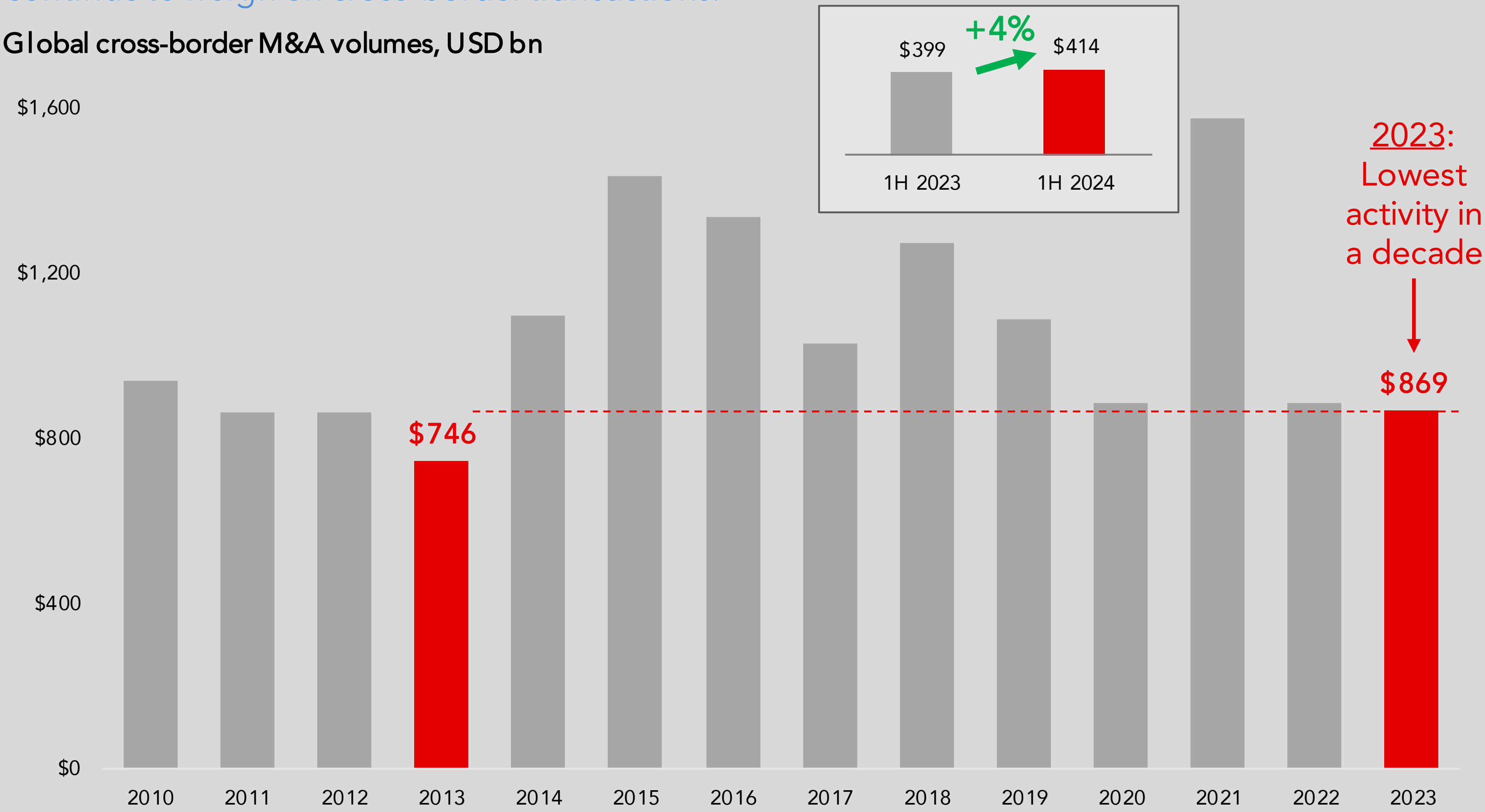
Trends in Global M&A

11 Cross-Border Activity Below Trend

Cross-Border Activity Below Trend

In 2023, global cross-border M&A declined to $870 bn, its lowest level in a decade. In 1H 2024, cross-border activity increased just 4% from 2023's below trend levels. A confluence of factors, including lower global growth, more activist global regulatory regimes, and trade barrier escalation may continue to weigh on cross-border transactions.

Global cross-border M&A volumes, USD bn

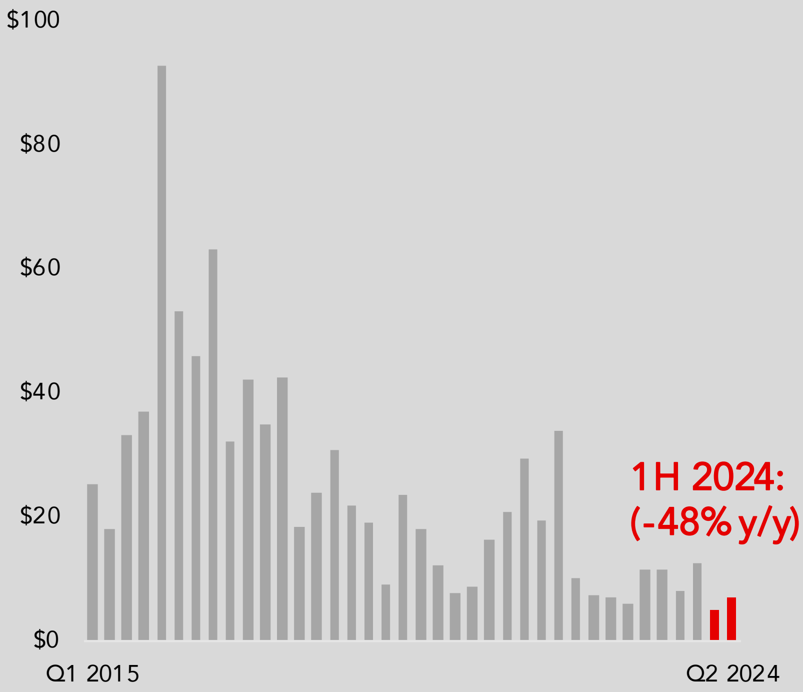


Source: (1) Cortex. Dealogic. 1H 2024 data as of August 12, 2024. Includes rank eligible, M&A deals.

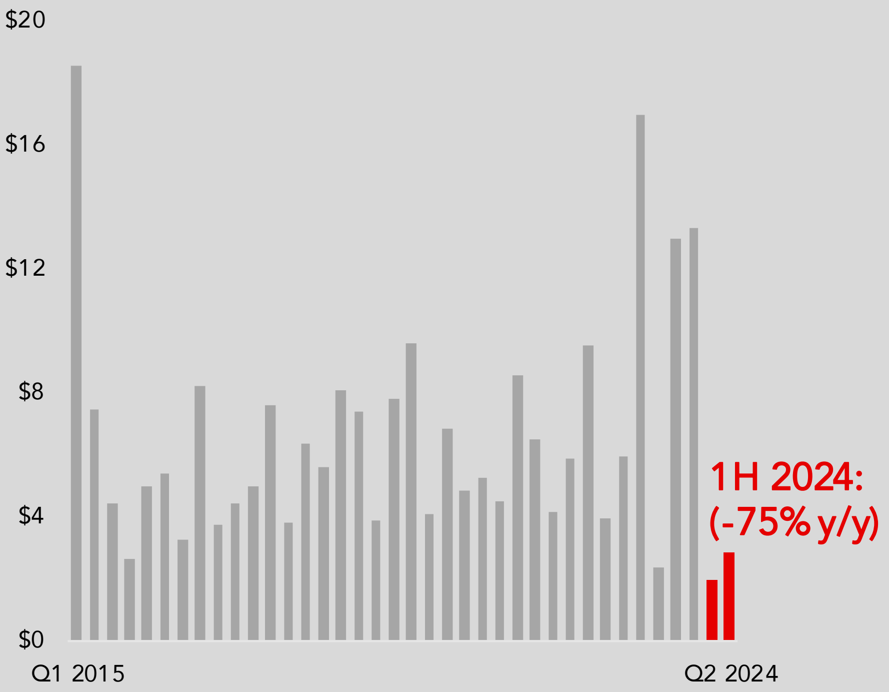
Sharp Decline in China Cross-Border Activity

China's rapid growth over the past 40 years led to heightened inbound and outbound deal activity. However, a combination of structural challenges to long term growth and significant foreign regulatory scrutiny have reduced cross-border China M&A activity by 60% in the 1H, with outbound M&A activity down nearly 50% y/y, and inbound activity down 75% y/y.

China outbound cross-border M&A, quarterly, USD bn



China inbound cross-border M&A, quarterly, USD bn



China cross-border M&A down 61% in 1H 2024

Source: (1-2) Cortex. Dealogic. M&A includes rank eligible. 1H 2024 data as of August 12, 2024.

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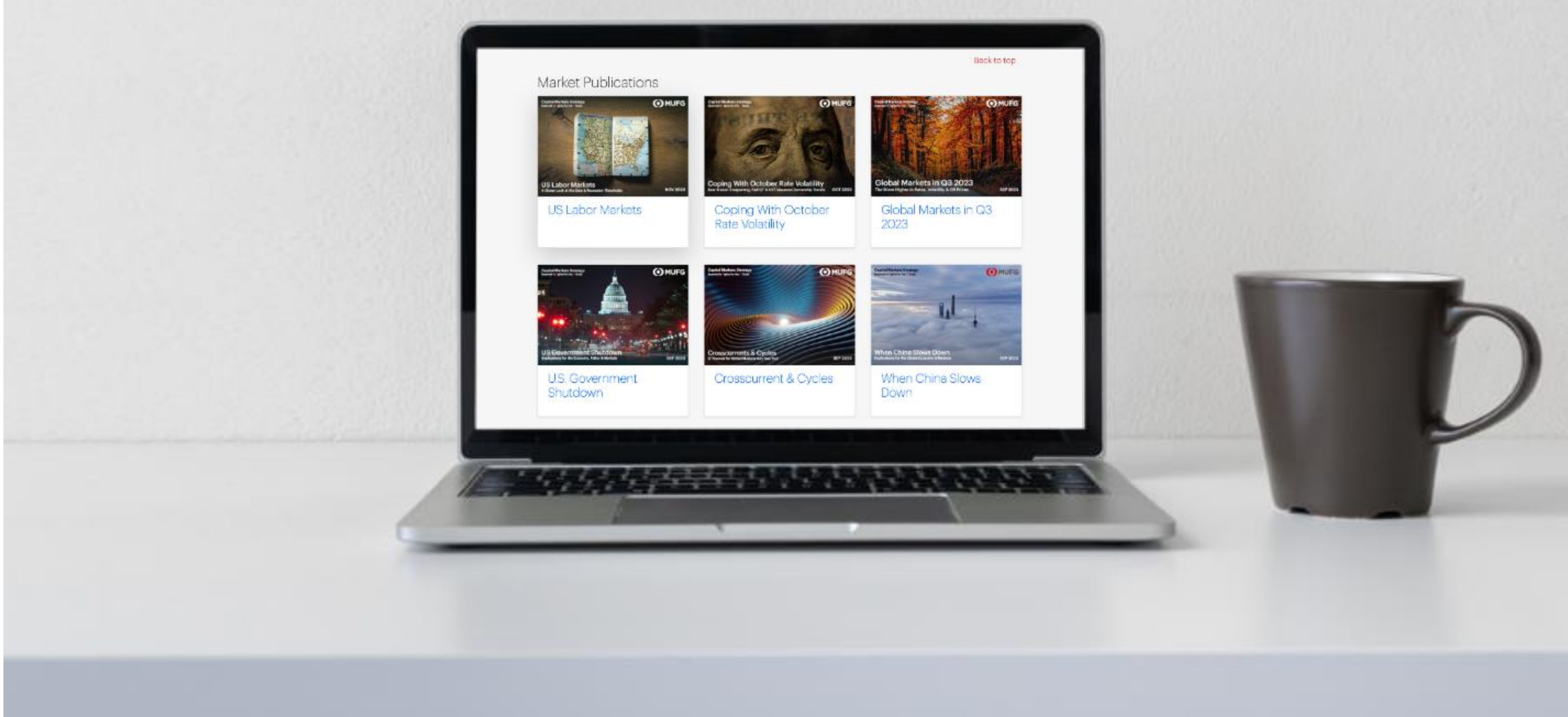

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Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has nearly 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Over the last 15 years, Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he serves on the Board of Trustees of the New Canaan Library as well as the Holy Cross College President's Council.

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Experience

Hailey has over a decade of Wall Street experience, including three years as a Consumer Sector Specialist in Equity Sales and ten years as a Capital Markets Strategist. Hailey is also the co-chair of MUFG's Women's Initiative Network (WIN) has devoted years to participating in and developing Wall Street recruiting programs.

Education

Hailey graduated with honors from the University of Michigan's Ross School of Business with a BBA and a minor in International Studies.

Personal

In March 2020, Crain's New York Business Magazine named Hailey one of the "Rising Stars in Banking and Finance".

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Experience

Stephanie has spent nearly seven years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children.

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Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.

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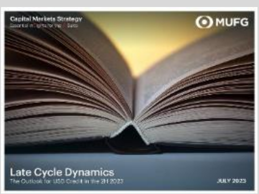

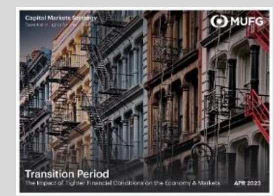

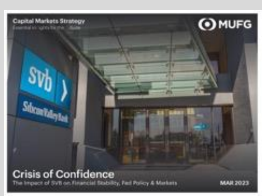

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