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M&A MID-YEAR

MARKET UPDATE



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Our review

As reported in our previous Global M&A Report in early 2022, the hiatus in M&A deals created by the COVID-19 pandemic led to a flurry of activity in 2021 as investor confidence rebounded and the business world reopened. Insurers were able to write high volumes of cover although there were signs by the fourth quarter that underwriters were becoming more selective, and capacity began to shrink drastically.

Since then, premium increases – often in the 30-40% range – have proved short-lived and rates began to lower again over the early weeks of 2022. Russia's invasion of Ukraine on 24 February triggered a c. 30% fall-off in M&A activity in the subsequent two months, as dealmakers once again paused to observe how the economy reacted. Many notable transactions were derailed by sanctions, such as Citigroup's planned sale of its consumer business in Russia to VTB. Others with a less direct Russian nexus were also impacted, such as a short-lived \$2.4bn bid by electronics firm Spectris for Oxford Instruments – Spectris withdrew citing uncertainty caused by the war.

Yet despite the disruption caused by the Ukraine conflict, there are positive signs that reduced activity will only be short-lived. Unlike during the pandemic and its resulting lockdowns, business travel and face-to-face meetings are possible again. Furthermore, the dollar's steady appreciation against other major currencies should encourage cash-rich US corporates to focus on potential acquisitions in Europe and other regions, boosting deal activity.

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During the early months of the pandemic, one of the few positive impacts was that the lull in activity gave insurers and brokers the opportunity to review and refine their W&I offering.

Innovations such as standalone cover for (previously uninsurable) specific tax and contingent risks became more commonplace. Similar novelties are likely to result from the 2022 slowdown as well, for example, some insurers are already becoming more willing to wrap known and forward-looking Intellectual Property risks into W&I policies. More insurers are also employing Intellectual Property teams to underwrite such risks.

Another development noted by Gallagher Specialty during H1 2022 is that sellers are engaging with the W&I workstream at an earlier stage in the M&A process. This has several advantages: sellers can exercise greater control over the process, and greater certainty is created sooner as to whether the ultimate coverage position can be achieved. We can also provide advice and assistance if insurable standalone risks, such as tax issues, are identified during the vendor due diligence process.

Looking ahead, despite continuing geopolitical uncertainty, the team is cautiously optimistic on the prospects for M&A activity over the coming months, with recent deals such as Pfizer's USD11.6bn bid for Biohaven Pharmaceutical reactivating the biotech sector for example. In 2021, Gallagher Specialty advised on hundreds of deals ranging from the low millions to the few billions, in a variety of sectors and jurisdictions. We're looking forward to assisting on deals of all shapes and sizes during the remainder of 2022.



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