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2024 Edition



When Deals Spring a Leak

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There's no question that 2023 was a challenging year for dealmakers.

Amid the massive downturn in transaction volume, how did the M&A media reporting landscape change? For H/Advisors Abernathy's fourth annual Leaks Report, we explore a few fundamental questions for dealmakers to consider heading into 2024:

- While fewer deals were announced, did those that were announced leak more often?
- What did the significant rise in divestitures and spin-offs mean for leaks?
- In a challenging private equity investing environment, were PE-backed deals more susceptible to leaks?
- As large-scale dealmaking was concentrated in a few hot sectors (i.e., technology, oil & gas, and healthcare), were some industries "leakier"?

State of Play

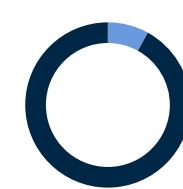
In 2023, 405 deals of \$1 billion or greater in value were announced, down from 497 such deals in 2022. Amid this slowdown in overall deal volume, only 24% of announced transactions leaked in 2023, while the factors that impacted the leak landscape continued to shift. Notably, **deal momentum picked up in the second half of 2023**, with 25% more deals announced than during the first half of the year. **The leak environment also picked up**, with 26% of transactions leaking prior to announcement in the second half of the year, up from 21% in the first half.

24%

of transactions leaked

Both transactions and leaks increased in the second half of the year

Divestitures and spin-offs had an impact on leaks



+8 pts

Divestitures leaked 8 percentage points more than whole company transactions

43%

of transactions valued at over \$10 billion leaked

Larger transactions were more prone to leaks

Entertainment, Leisure and Media was the leakiest sector – nearly half the deals leaked

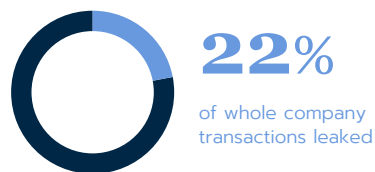
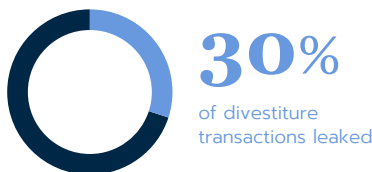
47%

Social media was responsible for nearly half of all online mentions



The Year of the Spin-Off

An increase in divestitures and spin-offs also shaped the M&A environment: our data revealed that these transactions leaked at a higher rate compared to whole company M&A. In 2023, **30% of divestitures leaked, compared to 22% of transactions involving the sale of an entire company.** With shareholders and activist investors continuing to push for spin-offs at large conglomerates, coupled with regulatory pushes for the break-up of large companies with outsized market share, we expect this trend to continue into 2024.



Deal Size Matters

When it comes to M&A leaks, the size of the transaction matters. In 2023, 43% of transactions valued at more than \$10 billion leaked, which tracks alongside 42% in the previous year. As the size of a potential deal increases up to \$5 billion, the likelihood of a leak also increases. Overall, smaller deals leaked at a higher rate than the previous year – 90% of deals that leaked in 2023 were valued between \$1 billion and \$10 billion. This makes sense when you consider that spin-offs and divestitures are often valued in this range, as the sale of a single business unit rarely reaches the \$10 billion threshold. In addition, almost half (47%) of deals valued at \$5 billion or more leaked, representing a year-over-year increase of 21% compared to 2022.

43%

of transactions valued at more than \$10 billion leaked in 2023



44%
of transactions announced in 2023 involved a private equity buyer or seller

While the rate of larger leveraged buyouts was down particularly in light of high interest rates, private equity deals took a larger share of the M&A market, with 44% of transactions announced in 2023 including a private equity buyer or seller. **Private equity deals followed the same trends we observe across the market,** with 27% of PE deals leaking compared to 24% of transactions overall. The average deal size for a leaked private equity transaction was \$2.97 billion, significantly below the overall average deal size of \$3.99 billion in 2023.

How Accurate Are Leaks Anyway?

As deals continue to leak at a significant rate, has the accuracy of reporting evolved? **In 2023, 76% of leak articles accurately named both parties to the transaction, but valuation accuracy declined.** In 2022¹, 60% of leaks accurately reported the transaction value within a 10% margin, while in 2023, 58% achieved this level of accuracy. This means that reporters were often able to accurately source the transaction parties but less likely to land the correct valuation. Accuracy is important when considering the potential for a leak – an article that undervalues the transaction may cause concern among shareholders, while an article that overvalues the transaction may make the actual premium seem less compelling to shareholders compared to the price they read about. Both also run the risk of impacting yet-to-be-completed negotiations.

What Role Does Social Media Play?

While leaks are reported in traditional and online media outlets, social media was responsible for 74% of total reach² and accounted for nearly half of all online mentions (47%), making posts on channels like X and Reddit a critical means for stakeholders to learn about leaks, share their opinions and further speculate about details. Closely monitoring social media reaction to a leak is essential to understanding stakeholder reactions and potential concerns about the yet to be announced transaction.



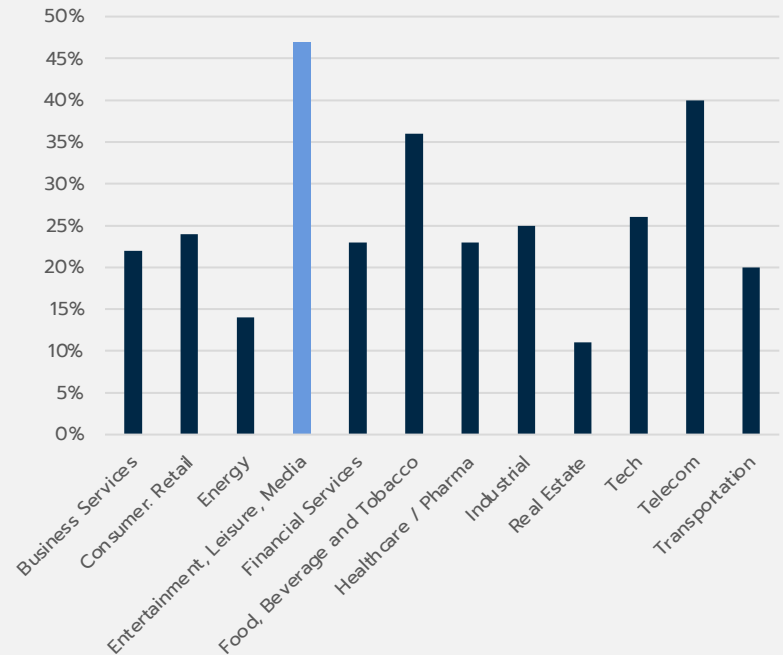
47%

Social media was responsible for nearly half of all online mentions

¹ Based on first half of 2022 data

² Reach is a defined estimate that measures how many individuals may have seen a piece of content. Data is available for multiple data sources and enables and public facing platforms each of which is measurable over a defined length of time

Which Sectors Get the Most Heat?



When assessing the risk for a leak, it can also be helpful to understand which sectors are most susceptible to leaks. **The entertainment, leisure and media sector was the “leakiest” in 2023, with 47% of transactions leaking.** This is a shift from the previous year – in 2022¹, financial services and technology were particularly prone to leaks, with nearly half of all tech transactions and approximately 75% of all financial services transactions having leaked. Technology and software services was the busiest sector overall in 2023, with 73 deals valued at over \$1 billion, but only 26% of these transactions leaked. The financial services sector was also less leaky this year, with only 23% of the 43 deals valued at over \$1 billion having leaked.

* Aerospace and Defense sector omitted due to low sample size



Preparing to Announce a Transaction in a Leaky Environment

With this information in mind, it's even more important that dealmakers and communicators prepare for a leak to control the narrative about the rationale for a transaction and why it makes sense for stakeholders.

The quickest way to lose control of the narrative is often a media leak – a reporter catches wind of the deal from various sources and publishes an article ahead of the formal announcement, potentially including details around valuation, rationale, the potential for regulatory scrutiny, and other factors that can significantly impact how key stakeholders perceive the transaction before it is announced, and on occasion, even delaying or derailing the deal. Our analysis covers the transactions that were successfully announced – however, the implication for dealmakers and communicators stretches far beyond to include hundreds of transactions that fail to see the light of day and may have been impacted by a media leak.

A media leak can spook key stakeholders and create misconceptions, particularly when the companies involved fail to effectively engage with stakeholders around media speculation. It can be an uphill battle to set the record straight after a leak and ensure you get your key points out into the market, but with thoughtful preparation and a foundational

understanding of the leak environment, company executives can better understand the risk of a leak and how to mitigate it.

While a rumored transaction can leak at any time, the likelihood grows as negotiations and due diligence progress and more parties are brought under the tent, from external advisors and financial backers to internal teams. This widening circle is inevitable as the path to signing and announcement moves further along, but **rumors can begin to swirl even in the early “talks” phase, so it’s critical to plan for a potential leak well in advance of due diligence and announcement day.** Both parties should be aligned on how they plan to respond to potential leaks of all kinds, which could range from a speculative inquiry from a reporter with very little information to outreach from a reporter with most of the facts and enough concrete information to publish a story with or without your response.

Leak preparation should consider these different scenarios and how to prepare for and respond to each one in real-time – with draft materials

It's critical to plan for a potential leak well in advance of announcement day

for use in communicating with key stakeholders if rumors do become public and you need to address internal and external chatter. **Map out stakeholder groups and recognize that a leak may impact them in different ways and prompt different questions** – shareholders may drill down on valuation and rationale, while employees are more likely to be concerned about job security, and customers about service disruption. Prepare messaging, create a rapid response plan, and, again, make sure both parties are aligned about what should and should not be said to internal and external audiences.

At the end of the day, leaks can be overcome – comprehensive preparation and close coordination coupled with a strong narrative and plan for communicating with key stakeholders continues to be the best way to position dealmakers for a successful announcement.

Key Definitions and Methodology

Deal Criteria

Period of Analysis:

Data set features transactions announced from January 2023 through December 2023

Size Consideration:

Announcement value of \$1bn or larger in enterprise value as recorded by Mergermarket

Geographic Consideration:

Data set includes transactions where at least one party (buyer or target) is based in the United States

Volume of Deals: 405

"Leak"

For purposes of this study, a "leak" was defined as a deal-related media mention of bidder and/or target company names prior to company disclosure of deal negotiations

About H/Advisors Abernathy

H/Advisors Abernathy consistently ranks as a top adviser in M&A in the U.S. and globally, and in 2022 was named The Deal's "Public Relations Firm of the Year" for M&A and activism defense. With a distinctive data-driven practice and a tailored approach that incorporates a focus on all stakeholders, the M&A team has established itself as the leader in transformative transactions.

The firm has advised on more than 1,100 transactions in the past decade, including more than 100 transactions in 2023 with a value of \$136 billion. The firm offers comprehensive transaction communications services reaching all stakeholder groups across all channels.

The team supports clients prior to announcement, on announcement day, in securing key approvals and through integration.

100+

transactions advised on in 2023

\$136+bn

value of transactions advised on in 2023

1,100+

transactions advised on over the past decade

PR Firm of the Year

in 2022 by The Deal

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