Global M&A Outlook 2024

The Power of the Stirring Bear

Global M&A Outlook 2024: 'The Power of the Stirring Bear'

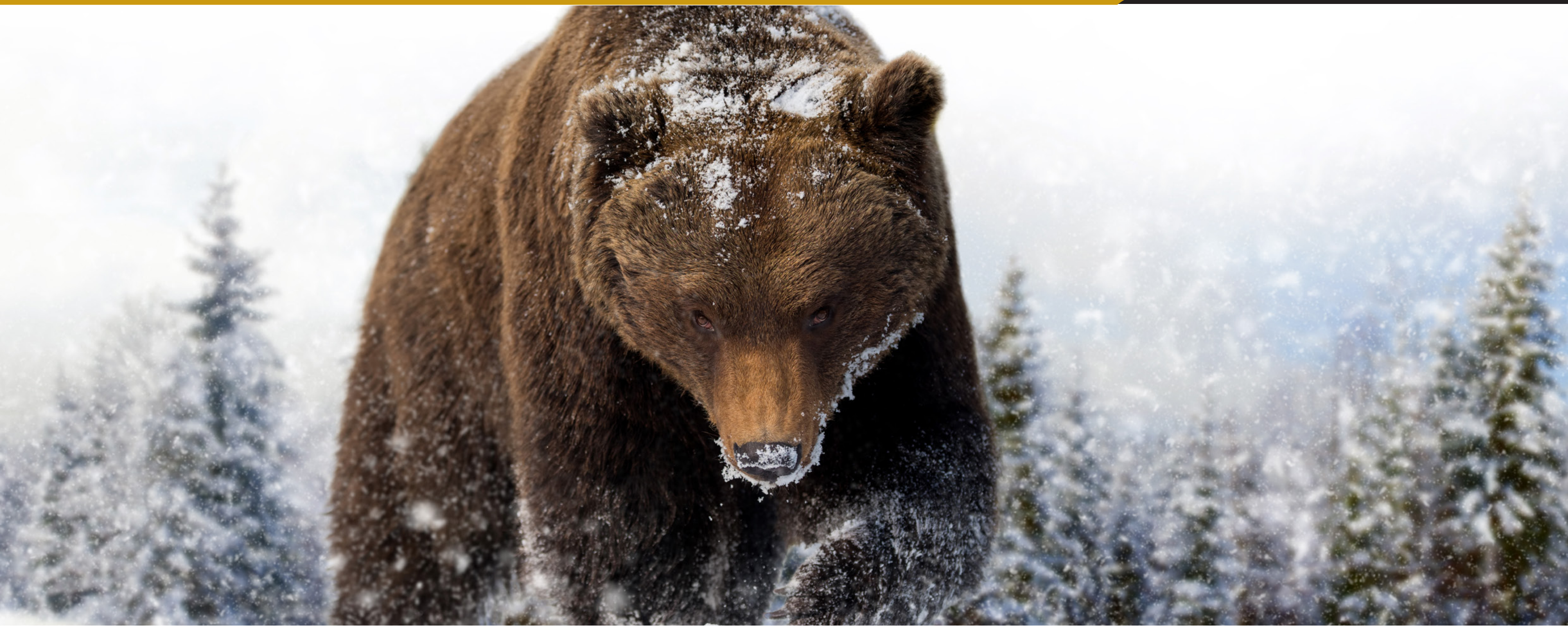
Executive Summary

- In our 2020 report, we presented the M&A market as a Bear hibernating in the Covid cave, but…
- The Bear rose from slumber and in 2021 delivered the strongest M&A market in history
- In 2023, as we predicted, the Bear has been sleeping deeply in its cave which seems deeper and darker than it was during the Global Financial Crisis
- M&A volumes are down 24% from the peak of 2021[i]; but the situation is deteriorating. In the last quarter an average of 2,300 deals closed each month; down 42% on the same period in 2021 and down 36% on 2022 (see Fig.1)
- In this report, we examine that peak to trough performance and consider why and when the Bear will stir and turn into the Bull

Drivers of M&A activity

- The slump we have endured is deeper than the one we suffered in the Global Financial Crisis (GFC). However, the Bear in the cave is bigger and more powerful today compared to 2008
- This is because the Bear is private equity, and this has significant implications for the recovery
- The markets in previous downturns have been driven by the attitudes and inclinations of businesses that don't need to execute M&A - **corporates**
- In this downturn, the market will be driven by investors who do need to execute M&A to source opportunities and realise returns - **private equity**
- We believe this will truncate the period of hibernation and drive activity in 2024 and 2025

All data included in this summary was sourced from Mergermarket (unless otherwise indicated). Dataset for each time frame outlined, comprises all reported acquisitions with deal values less than £1bn, including those with undisclosed values, across all sectors and geographies.



The Stirring Bear (mood)

Not only will the Bear drive the recovery, but its power has increased dramatically. In 2009, buyout funds had over $1tn of assets under management. In 2023 it has reached $3.8tn - a near fourfold increase. [ii] Consequently the 'stock' of businesses to be sold is dramatically larger and the business model requires them to be sold.

Never underestimate the Bear that is private equity.

The Bear with a sore head

It is abundantly clear that with...

- more expensive debt
- a challenging operating environment
- risk averse investors

…valuations of businesses will be down. This will result in...

- disappointing fund performance; and
- a sore head for many of our private equity Bears

Whilst it is tempting to remain in the cave and try to 'sleep it off', the Bear understands that if it does not do anything, nothing good will happen. Bears who became Bulls in 2009 and 2010 enjoyed some spectacular success - success denied to those who remained in hibernation.

In addition, LPs looking for liquidity are now prodding the Bear - gently at first, but with increasing vigour.

Our Bears must keep the LPs happy - or they may not be fed in the future.

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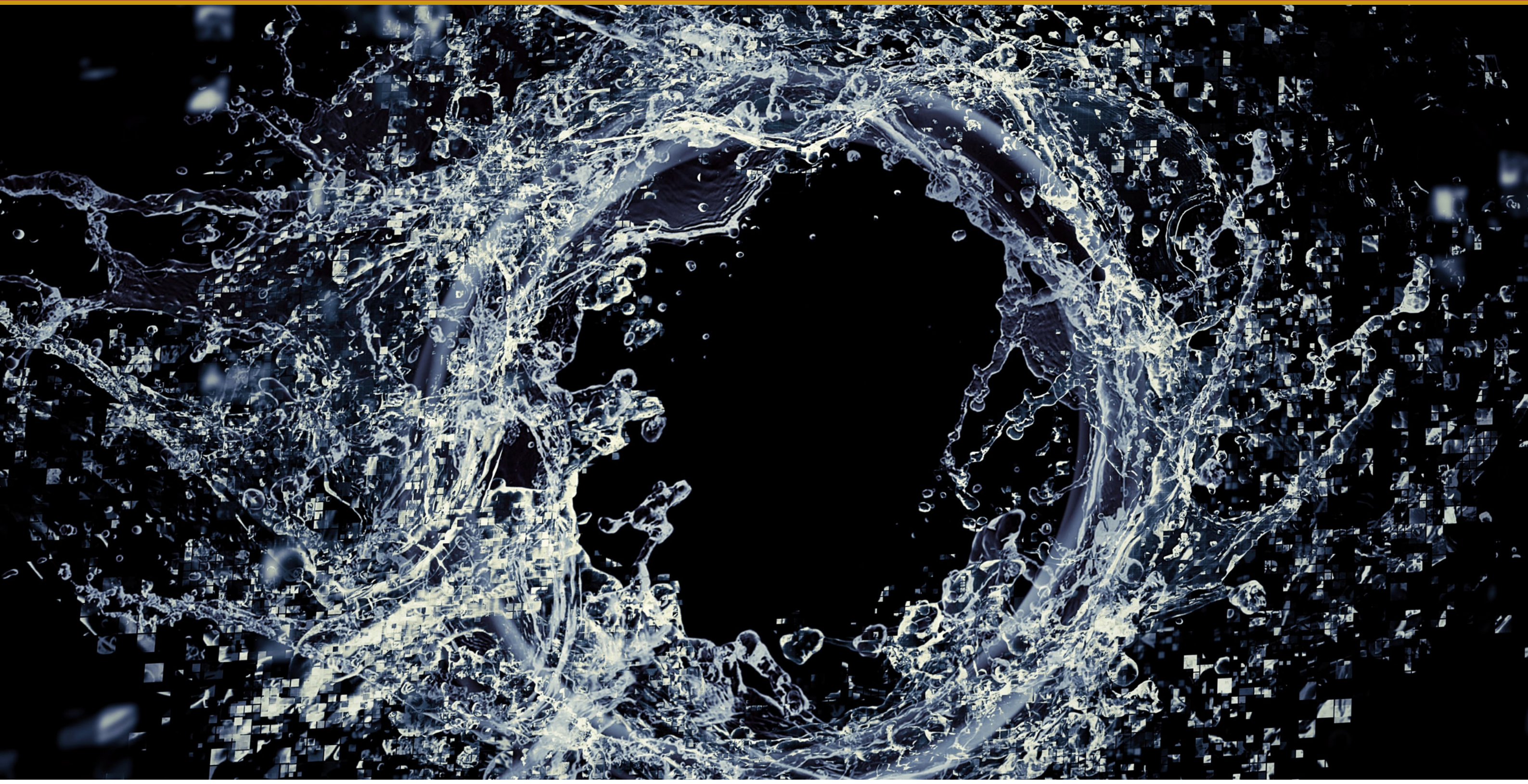
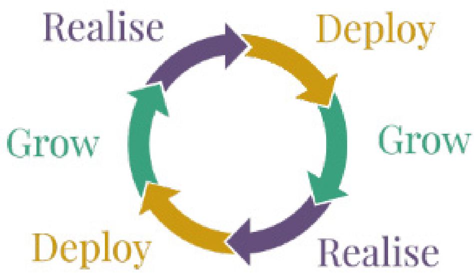


The Flywheel (momentum)



Velocity of deployment and realisation is the flywheel that has driven the success of private equity

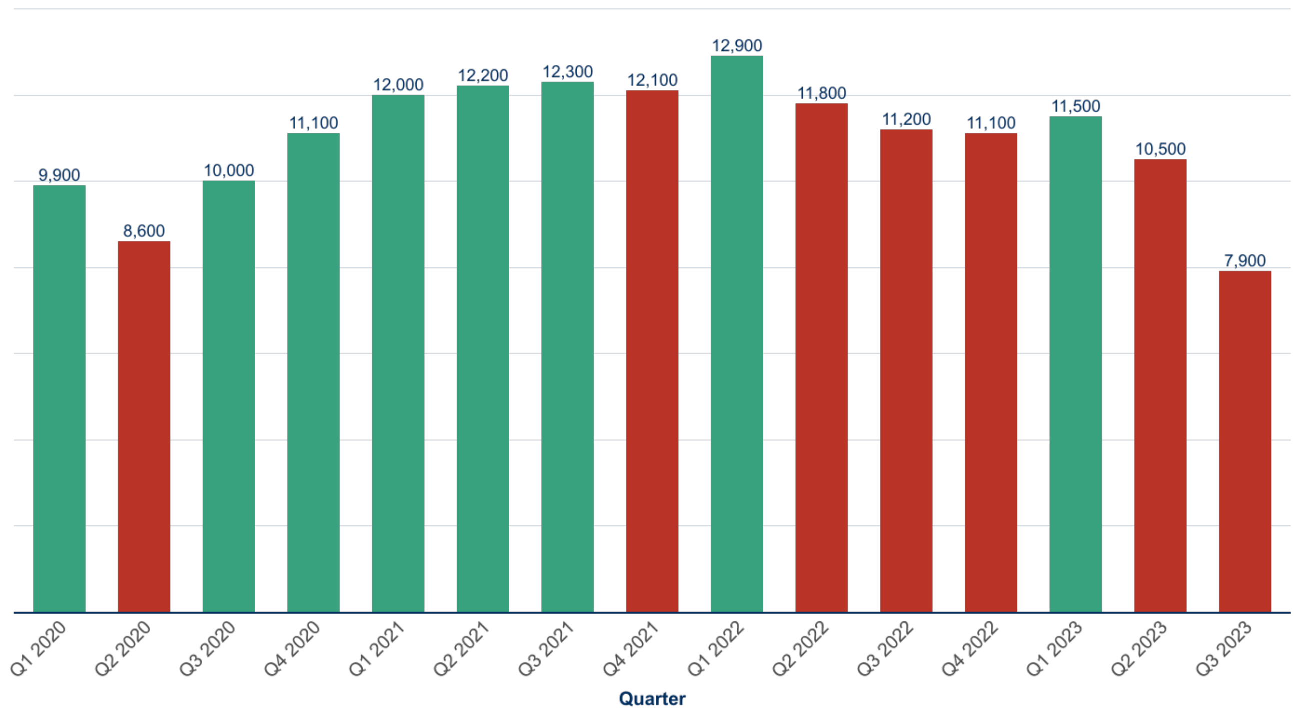
Deploy > Grow > Realize > Deploy > Grow > Realize

This period of hibernation has slowed the flywheel but has not changed the paradigm

2024: The ‘lead time’ conundrum

- M&A is a long lead time activity. The disappointing levels of deal completion we are experiencing stem from decisions made up to nine months or a year ago
- And the lead time has gotten longer because decision-making is more tentative and the preparation required to accommodate risk-averse bidders is more exhaustive
- There are the early signs of an improvement in ‘mood’ - there has been a marked increase in the number of transactions that are beginning to ‘test the market’. Sounding out potential bidders first before committing to a full and time-consuming process. Confidence remains in short supply but the desire to transact is palpable
- We believe that Q1 2024 will be the most active quarter for 18 months – first with deals that in the ordinary course would have happened in 2023 but have been delayed. When these deals complete it will increase confidence
- But, given the long lead time, few businesses will be ready to transact by the summer, pushing launch dates for new processes back to September

Figure 1: Quarterly deal volumes



Source: Mergermarket (For search criteria, see Appendix*)

When will the Bear wake?

- We believe we will have a two-paced recovery. One pace – 'faster' - for the **US**, and one pace – 'slower' – for **Europe**, with different parts of **Asia** responding to their own dynamics
- The most important determinant of that split is the national psyche. Americans move on from disappointment with greater alacrity and face the future with more positivity
- **In the United States** confidence is growing and when you add the facts that they:
  - o are at the forefront of entrepreneurial innovation [iii]
  - o have the deepest richest pools of investor capital [iv]; and
  - o the US economy has proved to be resilient while inflation has cooled faster than expected

…it is easy to understand that whatever the 2024 election result, US businesses have the potential to demonstrate a faster paced return to reasonable levels of M&A activity by mid-2024

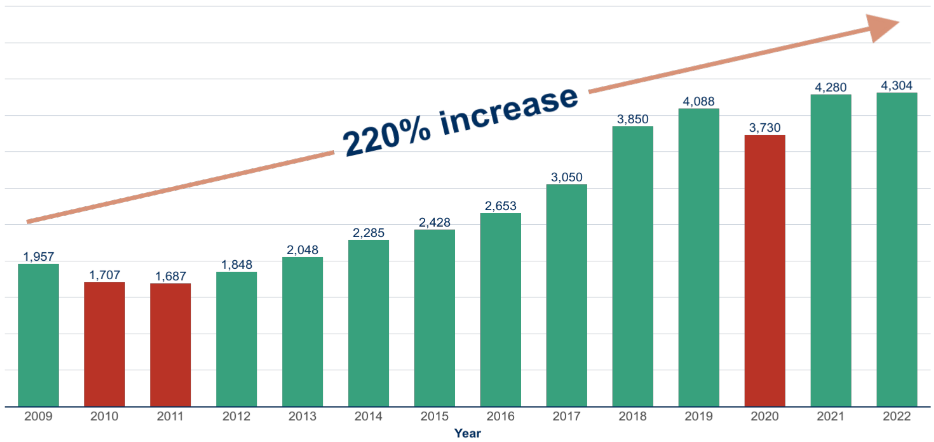
- **In Europe**, the pall of disappointment will hang heavier and the lack of an engine for economic growth will deliver a slower recovery
- European vendors are waiting for a 'read on the market' to increase their confidence to commit to a transaction. But with fewer deals happening, the market is hard to read. The flywheel is gearing up but not yet spinning
- **In Asia** the slowdown in China oriented deals is largely a consequence of the slowing economy and geo-political friction with the US. The pace is therefore 'slow'
- The stand-out positive story in Asia is **Japan**

Japan: Land of the rising Bear (momentum)

There is one significant market where the Bear is not only not 'in the cave' but is rampaging through the market at unprecedented levels – Japan

- M&A is a high growth activity in Japan and is now part of the 'cultural norm'. The past 10 years have seen Japanese M&A volumes grow by a staggering 220%[v] - a trend that looks set to continue apace this year
- Previously moribund corporates are under increasing pressure to deliver returns to investors and improve ROI
- Consequently, they are, for the first time, prepared to dispose of non-core businesses
- This provides a stock of opportunity for the private equity Bears – both Japanese and global
- Historically, private equity was an almost insignificant part of the market – approx. 10%[vi]. Private equity in Japan has experienced extraordinary growth, with assets under management reaching a record $46.3bn as of December 2022, nearly three times the amount from a decade ago[vii]
- The corporate focus for improved returns is now inevitably established and for as long as private equity investors believe they can drive enhanced business performance, there will be a rich vein of opportunity for our Japanese Bears

Figure 2: Japanese M&A volumes



Source: RECOF, Japan (All deal sizes, either buyer or seller or both from Japan, counterparty any region, all sectors, 2009-2022)

Beyond 2024

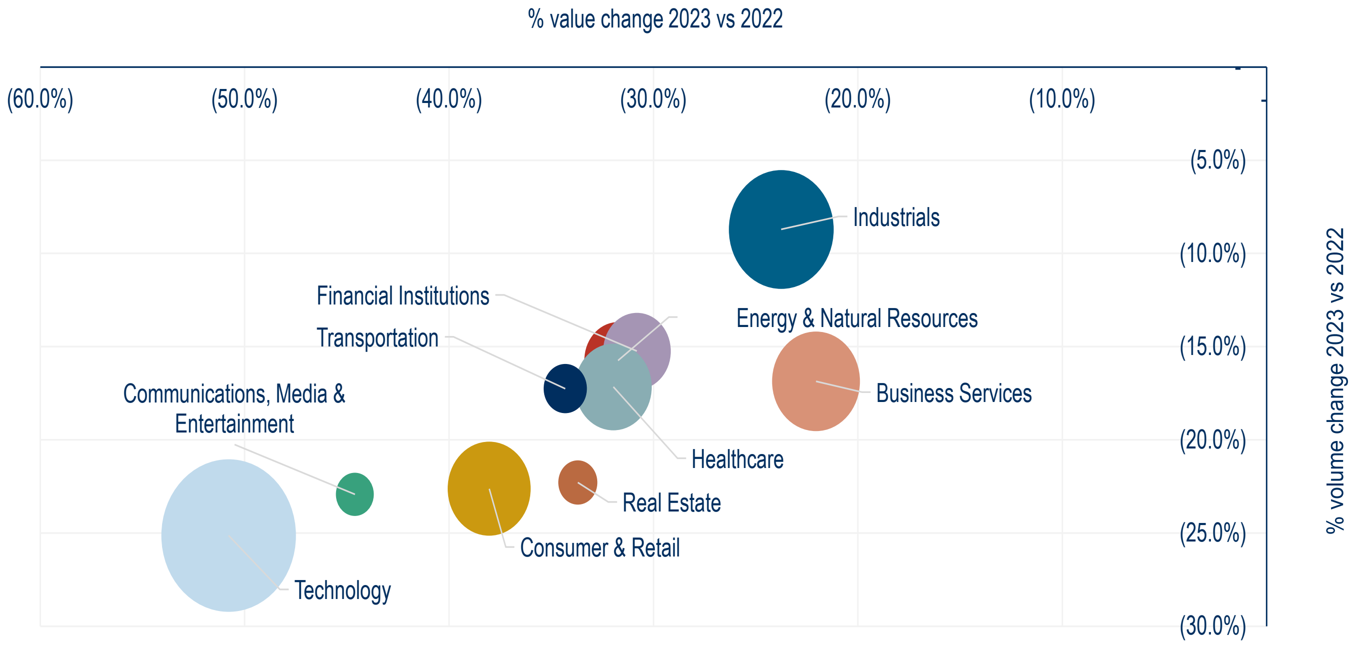
- By 2025, the Bear will have left the cave, and the deal-making flywheel will be powered by a significant backlog of assets that have to be sold
- In 2007, the GFC took six years to return to pre-crisis levels of deal activity[viii]. The power and size of the private equity Bear will accelerate the recovery and the hiatus will only be two years, which, given the global economic shocks we have suffered, is remarkable
- And all this is because the Bear is entrepreneurial, resourceful, pragmatic and focused on the future
- Above all the Bear needs to feed and there is no food in the cave

2023 in review

Sector review: What goes up must come down

- Every sector has demonstrated markedly reduced levels of activity, but the biggest reduction has been in the largest, Technology. The most compelling reasons for this are:
  o Valuations and investor sentiment in Technology were strong in 2021 and early 2022 – meaning that anybody who could sell, did; and consequently the stock of businesses for sale was exhausted
  o There is significant uncertainty about long-term valuations in the sector which makes investors tentative and drives inertia
- We are confident that the underlying strength of many technology businesses and the inevitable growth of the sector will attract investors in 2024 and drive more positive sentiment

Figure 3: Deal volume and value % change (by sector)



Source: Mergermarket (For search criteria, see Appendix*)

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Trade vs private equity

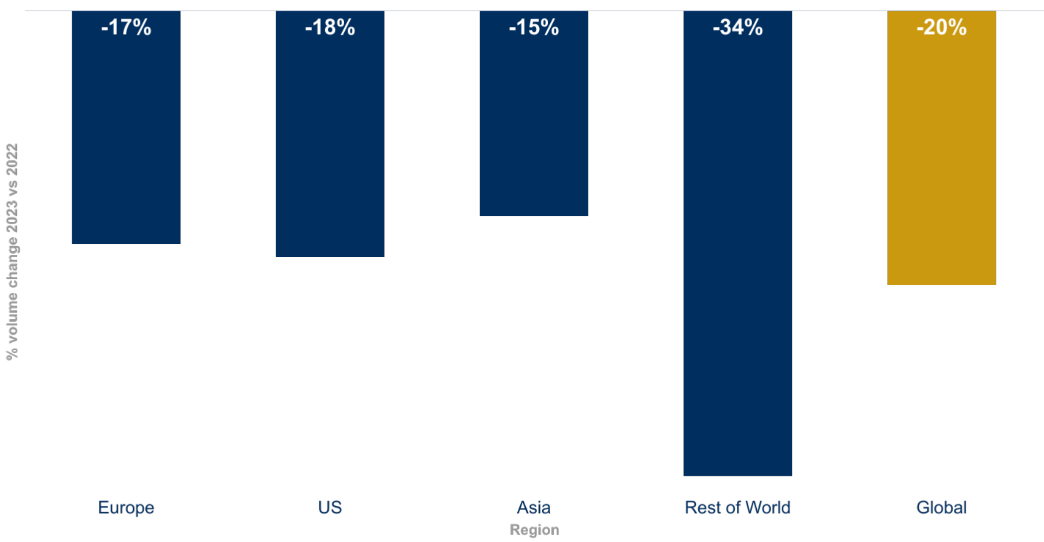
- We would have expected – in a world where private equity confidence is low – that trade bidders would have used their strategic advantage to prevail in processes or unpick bilateral situations
- But we would be wrong. The split of transactions between private equity and trade has remained remarkably consistent

Figure 4: Trade vs private equity

Up to $1bn, Jan > Nov	Europe		US		Asia	
	% PE	% Trade	% PE	% Trade	% PE	% Trade
2022	32%	68%	52%	48%	27%	73%
2023	33%	67%	50%	50%	23%	77%

Source: Mergermarket (For search criteria, see Appendix*)

Figure 5: Deal volume % change (by region)



Source: Mergermarket (For search criteria, see Appendix*)

References

[i] Mergermarket, Nov 2023: Dataset for each time frame outlined, comprises all reported acquisitions with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies

[ii] Prequin, Nov 2023: Global dry powder, buyout funds, 2019- 2023 YTD

[iii] Research FDI, Apr 2023: https://researchfdi.com/resources/articles/why-the-us-leads-the-world-in-entrepreneurship-and-innovation/

[iv] Financial Times, Apr 2023: https://www.ft.com/content/790a5990-1d25-45c4-9267-466a92c52e02

[v] RECOF, Japan (All deal sizes, either buyer or seller or both from Japan, counterparty any region, all sectors)

[vi] Japan Private Equity Association (JPEA), Private equity market in Japan: https://jpea.group/english/private-equity/private-equity-market-in-japan/

[vii] Prequin, Sept 2023: https://www.preqin.com/insights/research/reports/private-equity-and-venture-capital-in-japan-2023-preqin-territory-guide#:~:text=The%20volume%20of%20private%20equity,aggregate%20value%20of%20%24-23.8bn

[viii] Forbes, Oct 2022: https://www.forbes.com/sites/qai/2022/10/19/how-long-did-the-great-recession-last-in-2008/

All data and charts contained in this publication are sourced from Mergermarket, under the search criteria described below (unless otherwise indicated):

Mergermarket search criteria for chart and graph data	
Figure 1: Deal volumes by quarter	All reported acquisitions with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies
Figure 3: Deal volume and value % change (by sector)	All reported acquisitions with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies Tab 1: Volume / value percentage change calculated as January to November'23 vs. January to November'22 with deal values less than $1bn, including undisclosed deal values. Bubble size represents deal volumes for January to November'23 Tab 2: Volume / value percentage change calculated as January to November'23 vs. January to November'21 with deal values less than $1bn, including undisclosed deal values. Bubble size represents deal volumes for January to November'23
Figure 4: Trade vs private equity	All reported acquisitions completed by Trade or Private Equity, with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies
Figure 5: Deal volume % change (by region)	All reported acquisitions with deal values less than $1bn, including those with undisclosed values, across all sectors and geographies Tab 1:Volume / value percentage change calculated as January to November'23 vs. January to November'22 with deal values less than $1bn, including undisclosed deal values, split by region

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