Beyond the Horizon

Global M&A Outlook for 2024

Decoding key trends and untapped potential in the M&A landscape through 2024 and beyond

A METHOD360 COMPANY

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Introduction

The tumultuous economic waves of 2023 sent ripples through the private equity and sponsor-M&A landscape, churning up a record-breaking $2.59 trillion in dry powder. Yet, amid a holdup of deals and fierce competition for the gems that remained, private equity and external sponsors found themselves navigating uncharted waters while strategic acquirers found opportunities. With exits experiencing a similar drought, the focus pivoted from prepping for an elusive shore to meticulously charting a course for long-term, sustainable value within their existing portfolio companies. But as 2024's horizon clears, whispers of a potential M&A recovery are beginning.

To dissect the currents that may propel this potential upswing, our 2024 M&A Outlook dives deep into three critical areas:

Deciphering the 2023 Macroeconomic Environment:
We'll peel back the layers of the economic forces that shaped the tumultuous landscape of 2023, identifying the headwinds and tailwinds that steered dealmaking patterns.

Reviewing the Global M&A Process of 2023:
A comprehensive examine of the M&A landscape, analyzing both cross-border and sector-specific trends, along with the key challenges and successes that shaped the dealscape.

Predicting Global M&A Opportunities in 2024:
As economic clarity emerges, we delve deep into forecasting the dealmaking landscape, equipping you with the decisive insights and effective strategies to navigate this dynamic market and maximize value creation.

Macroeconomic Review of 2023

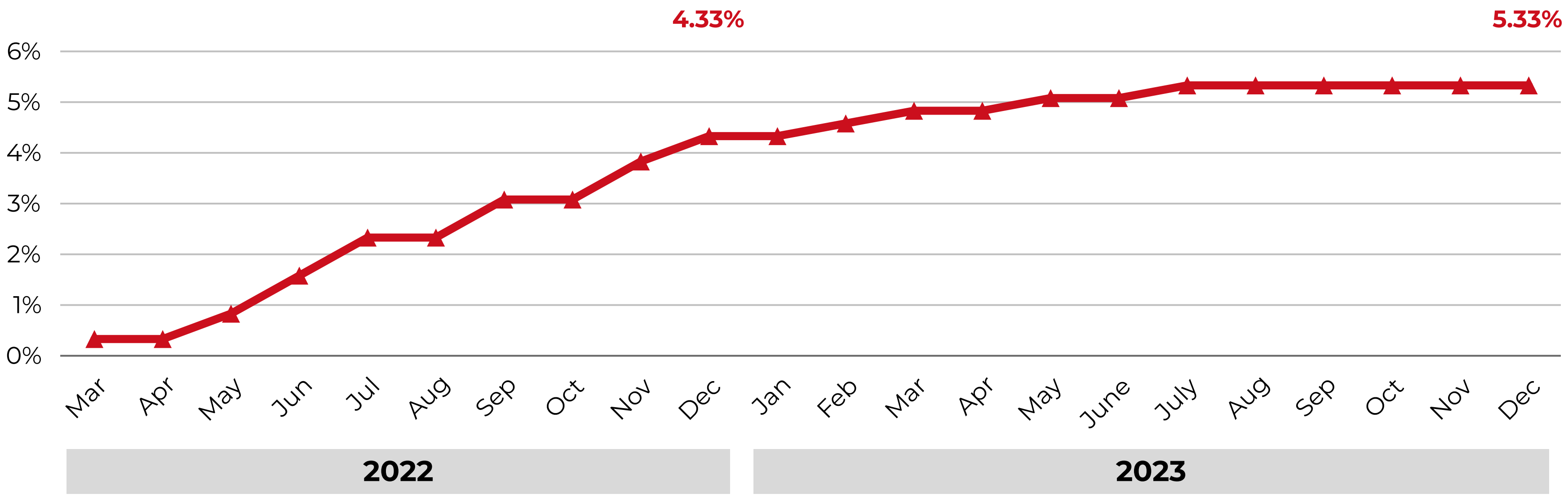
Unveiling the forces behind 2023's growth, the hidden risks that lurked beneath, and the game-changing trends that emerged

Interest Rates

Inflation, once a slumbering giant, roared awake in 2022. To tame the beast, the Federal Reserve, led by its newly hawkish chairperson, Jerome Powell, embarked on a series of aggressive interest rate hikes. Starting in March, the Fed upped rates by a quarter-point, setting the stage for six more increases throughout the year. By December 2022, the key federal funds rate, which had hovered near zero for years, stood at a healthy 4.5%. Borrowing costs for businesses and consumers also went up, impacting everything from auto loans to credit card bills.

While 2022 was marked by steady hikes, 2023 was a year of uncertainty. The Fed continued its tightening policies, with three more quarter-point increases pushing the federal funds rate to a range of 5.00% – 5.25% by May. However, as inflation showed signs of cooling and economic growth softened, the pace of hikes slowed down. The second half of the year saw debates about potential pauses or even rate cuts, leaving markets in a state of flux. Despite the volatility, the overall trend remained upward. Businesses, facing rising costs and shrinking demand, adjusted their investment plans.

Effective Federal Funds Rate, *2022-2023*



Source: Federal Reserve Bank of New York

Public Markets

2023 was a year of cautious optimism mixed with significant turbulence. While major indices finished positive, the year was marked by high volatility, investor anxiety, and the rise of public-facing artificial intelligence. Higher financing rates and volatile inflation results exerted significant downward pressure on the profitability of smaller companies (those with less than $250 million in revenue) during the first half of 2023. This negative sentiment echoed the market trends of 2022. However, the burgeoning field of artificial intelligence witnessed a surge in investor interest, leading to a substantial increase in the valuations of mega-capitalization technology companies on the Nasdaq. While this valuation growth was concentrated in a select group of less than 10 companies, it provided unexpected optimism and bolstered investor confidence in an otherwise challenging economic environment.

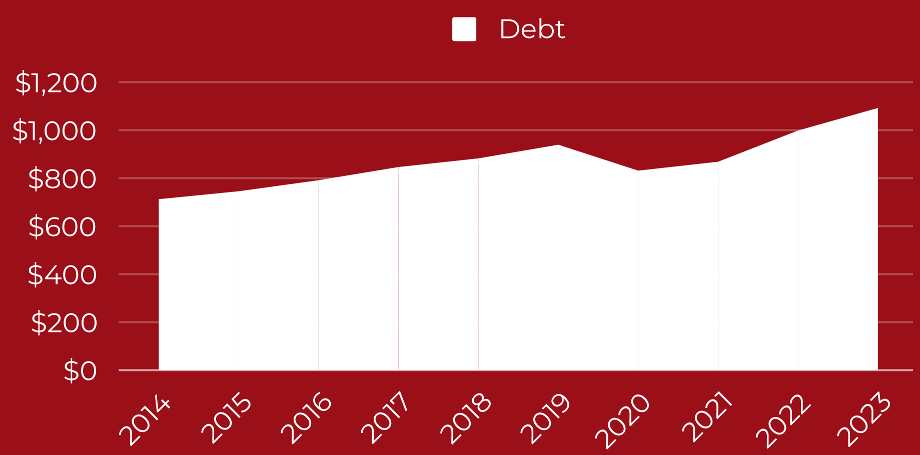
Equities enjoyed a surprisingly bullish ride in 2023, contrasting sharply with the complex rollercoaster experienced by the bond market and its participants.

Following the historically dismal performance of 2022, the first half of 2023 saw significant bond devaluations, leading to insolvencies within various financial institutions due to concentrations in low-interest treasuries from years prior. As the year progressed, yields ascended to a peak of 5.1% in October, before a year-end retracement to 4% fueled by positive CPI data and a shift in the Federal Reserve's stance towards potential future rate cuts. This policy pivot triggered a decline in yields, boosting demand and ultimately salvaging bond prices by year-end.

S&P 500	Nasdaq	Dow	10-Yr Note	30-Yr Bond
+24%	+42%	+14%	-1.5%	-2.4%

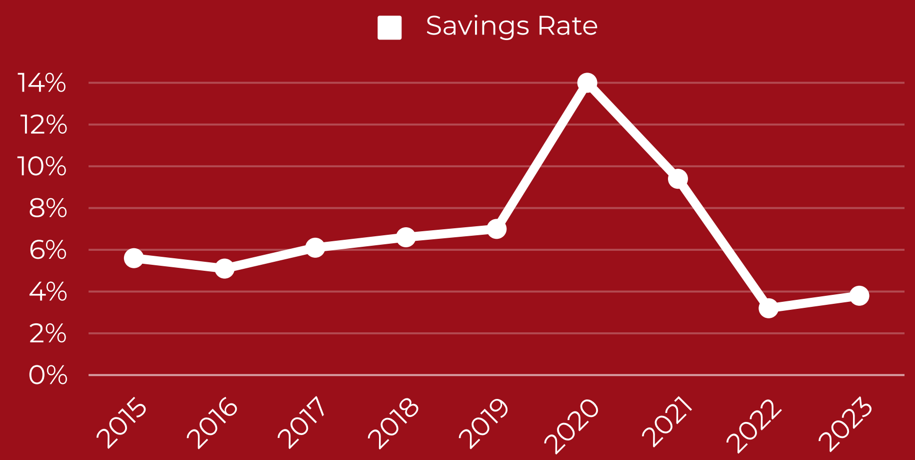
Consumer Activity

Consumer Credit Card Debt per year ($B)



Source: Statista

Personal Savings Rate per year



Source: Statista

Source: Statista

While 2023 brought a welcome rebound from inflation's grip and exhilarated markets, consumer behavior painted a far more intricate picture. The year stood out for its unexpected resilience, defying recessionary predictions thanks to robust consumer spending and buoyant sentiment. This "exuberant spending" fueled by credit cards – evident in record-breaking car purchases, dining out, and shopping sprees – propelled the economy towards a much-desired "soft landing." However, this spending boom came at a cost. Credit card debt soared to an unprecedented $1.08 trillion, and the national savings rate plummeted below its long-term average of 6.5% to a current 4% of disposable income.

The paradox was striking. Despite expert predictions of an economic downturn, consumers chose to spend with unrestrained enthusiasm, even as concerns about inflation lingered. This spending spree, ironically, enabled the Federal Reserve to raise interest rates in a bid to maintain employment. However, this strategy's long-term implications remain shrouded in uncertainty. As 2024 dawns, nationwide savings dwindle, and household balance sheets face the prospect of slower growth. The extraordinary spending spree of 2023 may well give way to a year of forced austerity, raising pressing questions about the sustainability of consumer-driven economic recovery.

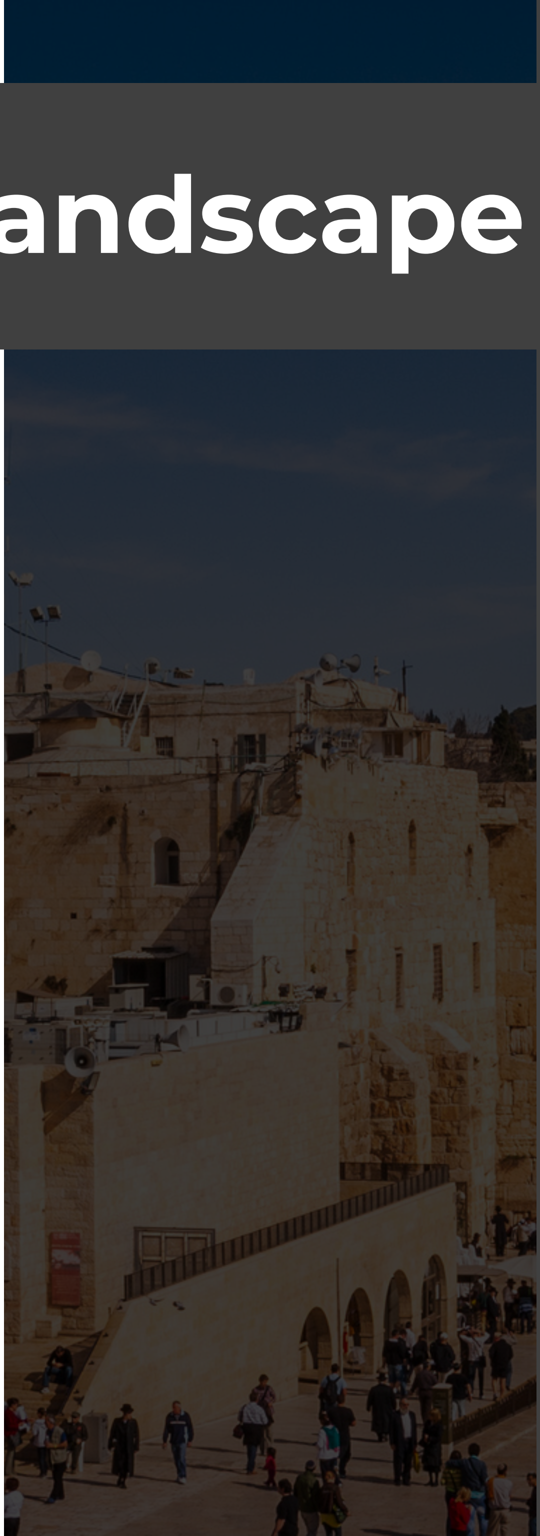
Geopolitical Landscape

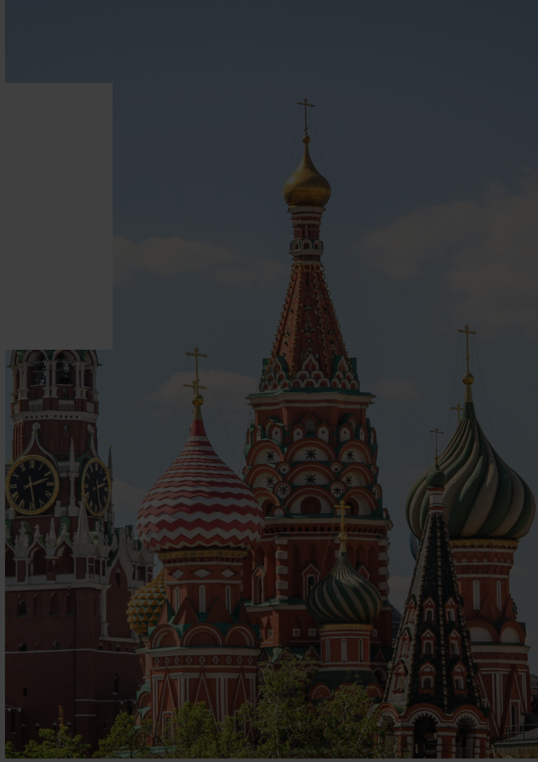
This year was marked by rapidly evolving power dynamics, lingering anxieties from 2022, and unexpected twists on the global stage.

The shadow of the Ukrainian conflict loomed large, its long fingers clutching at economies, security landscapes, and diplomatic efforts. While the battlefields quieted somewhat, the war's reverberations echoed across the globe. Europe, with its reliance on Russian energy, faced a winter of discontent, its economic engine sputtering under the weight of sanctions and price hikes. Food insecurity gripped vulnerable populations as wheat exports from Ukraine dwindled, threatening a new wave of humanitarian crises.

Meanwhile, the tectonic plates of global power continued their slow but inexorable shift. The rise of multipolarity became increasingly evident, with China's economic might and assertive foreign policy challenging the United States' unipolar reign. In the Indo-Pacific, territorial disputes simmered, fueled by nationalistic fervor and strategic competition.

Regional powerhouses like Turkey and Saudi Arabia cast bigger shadows, flexing their muscles on the world stage and pursuing independent agendas. This evolving power dynamic, while creating new opportunities for cooperation, also injected a potent dose of uncertainty and potential instability into the global system.



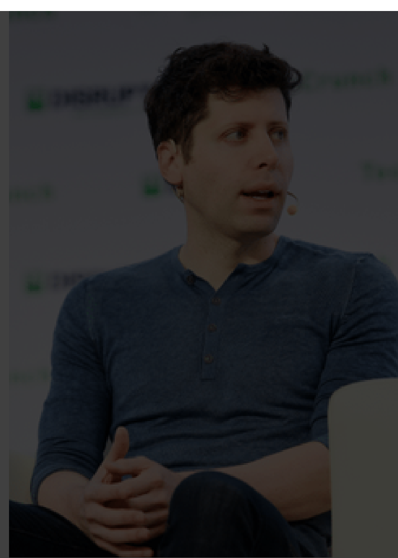
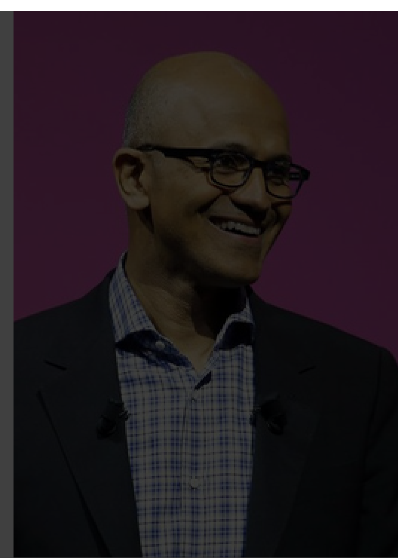
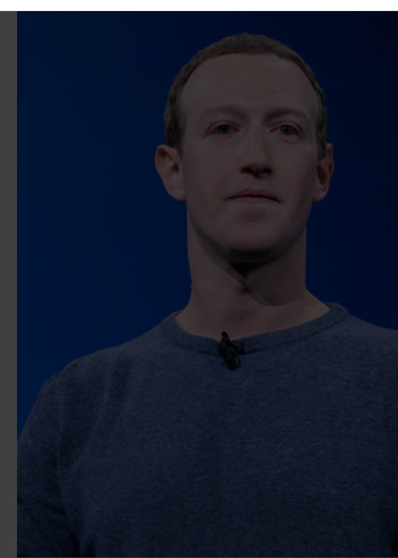


Technological Advancements

2023 was a year where technology pushed the boundaries of the possible, blurring the lines between sci-fi and reality. From advancements in artificial intelligence to leaps in medical technology, the year witnessed breakthroughs that hold the potential to reshape our world.

Large language models like OpenAI's ChatGPT and Google's Bard emerged as prime examples, blurring the lines between chatbot and companion. Unlike the rigid script-based AIs of yesteryear, ChatGPT held free-flowing dialogues, weaving humor, sarcasm, and even poetry into its responses. The widespread availability of powerful language models made them accessible not just to tech giants but also to independent developers and smaller organizations. This opened up a wealth of applications in areas previously considered too complex or resource-intensive for anyone outside a select few.

While 2023 witnessed the exciting ascent of generative AI, sustainable tech, robotics, and health tech, their rapid rise also cast shadows of concern. Data security, consumer privacy, and monopolistic behavior emerged as potential pitfalls fueled by the rush to capitalize on these exciting fields. The relentless pursuit of development speed raised financial anxieties for both consumers and governments, making organizational adaptation in 2024 a critical storyline. Crucially, the value of these technologies lies not just in their current capabilities, but in their vast potential. While 2023 dared to invest in bold advancements, 2024 must be the year where their value is unlocked. This necessitates concerted efforts towards widespread adoption of AI, AR/VR hardware, and electric vehicles across the globe. As we stand on the precipice of a technologically transformative year, navigating these challenges and capitalizing on the potential are the keys to unlocking a brighter future.


Regulatory Environment

2023 painted a tumultuous landscape for big tech and M&A deals, as regulatory scrutiny reached an unprecedented level. While global mergers and acquisitions remained robust, the winds shifted dramatically in the west, presenting both hurdles and opportunities for dealmakers.

The year saw major regulators like the US Federal Trade Commission (FTC) and the European Commission flexing their muscles. The FTC's landmark lawsuit against Microsoft's Activision Blizzard acquisition set the tone, signaling a more aggressive approach towards mega-deals with potential monopolistic implications. Similarly, the EU's Digital Markets Act, aimed at curbing the power of Big Tech gatekeepers, cast a long shadow over comparable tech mergers within the bloc.

Regulatory concerns went beyond market dominance. Data privacy and security came under intense scrutiny, with the EU's General Data Protection Regulation (GDPR) inspiring similar legislation globally. This led to increased scrutiny of mergers involving companies with vast data troves, further adding complexity to the M&A landscape.

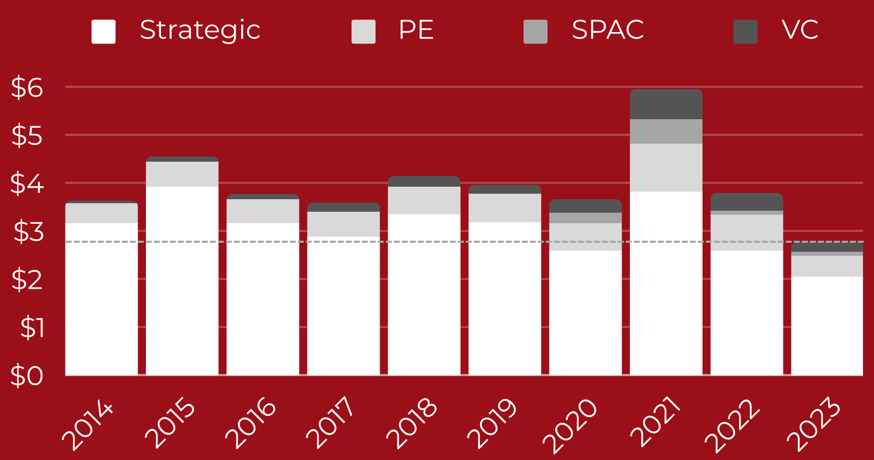
Geopolitical tensions further complicated the picture. National security concerns fueled the rise of "golden share" schemes, allowing governments to veto sensitive M&A deals in critical sectors. This trend, already evident in Europe, gained traction in the US, with proposals for similar measures targeting Chinese investments in sensitive technologies.

Global M&A Review of 2023

The shifting sands, sector standouts, and strategic moves that embodied the M&A developments of 2023

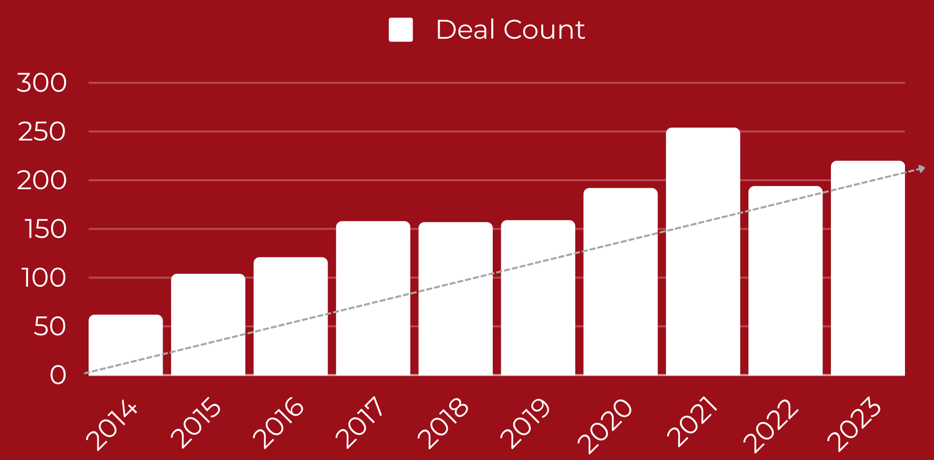
Deal Flow and Momentum

Global M&A per year, by deal type ($T)



Source: Wall Street Journal

Global Take-Private M&A per year



Source: Dealogic

The initial months of 2023 witnessed a pronounced slowdown in M&A activity, attributable to pressure on financial markets, a decline in macroeconomic confidence, and rising interest rates. However, a notable uptick in both deal announcements and new dialogue towards the end of Q4 signaled a potential shift towards recovery. Despite a year-on-year decline of approximately 20% in total M&A dollar volume, reaching $3 trillion, the level of activity aligned with the median pre-2018 levels, with average monthly volumes exhibiting progressive improvement throughout the year. Overall, as the global macroeconomic backdrop stabilizes and financing markets experience continued reopening, it appears that a stabilization of global M&A activity is coming into view.

Excluding take-private transactions, a confluence of factors – namely, increased borrowing costs, heightened macro and operational risks, and the burgeoning secondary market – contributed to a significant slowdown in sponsor M&A activity in 2023. This moderation, with sponsor deals declining to 28% of total activity compared to nearly 40% in 2022, has created a substantial window for potential sentiment improvement in the coming year. Notably, while sponsor M&A experienced relative sluggishness, take-private transactions persisted at near-record levels. This seemingly paradoxical trend can be attributed to several factors, including market corrections and shifting target capital cost dynamics primarily driven by risk-free rates.

Industry Focus

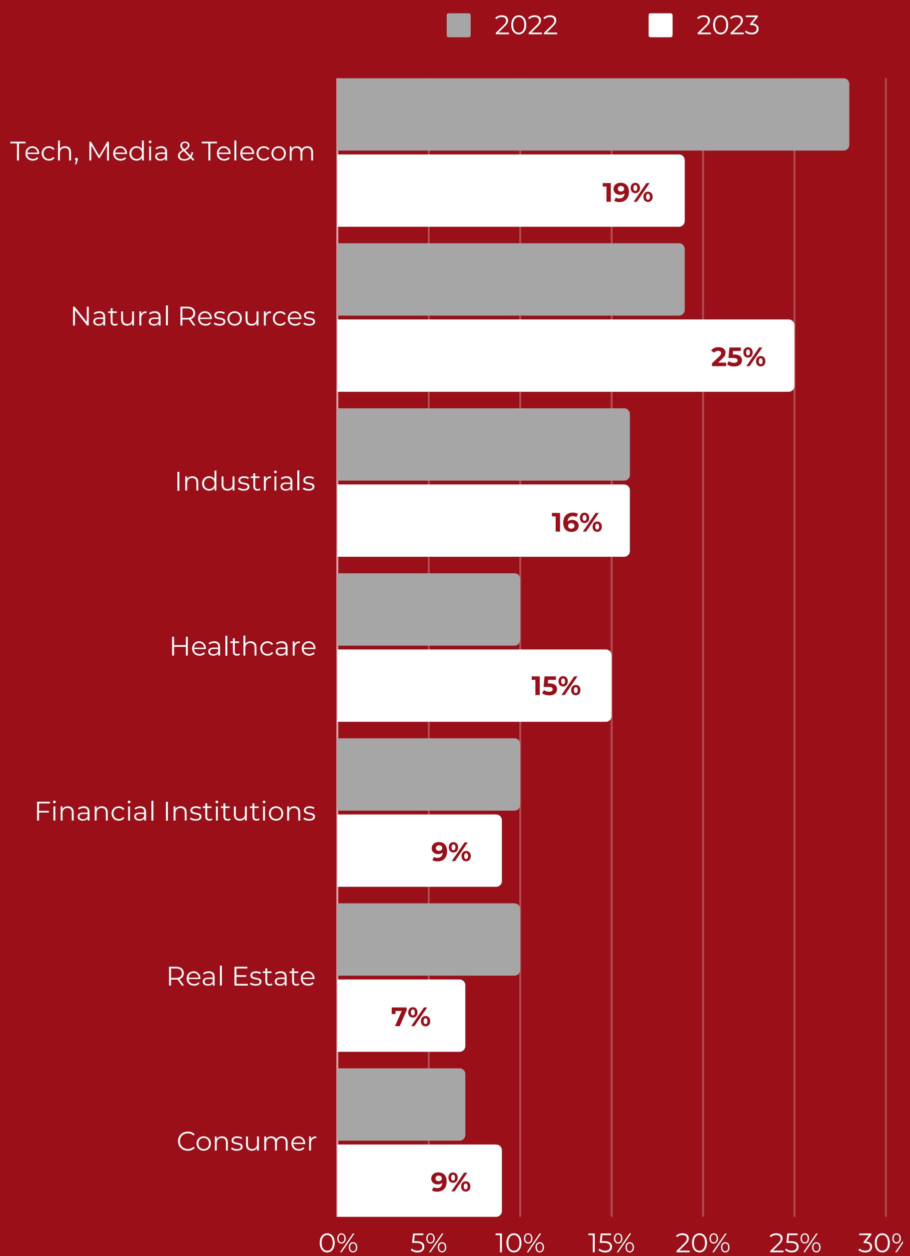
2023 saw a dramatic shift in M&A, away from big-ticket tech and media deals and towards smaller acquisitions across diverse sectors. While mega-deal size remained industry-agnostic, both the number and value of deals plummeted in tech and media compared to industries like healthcare, infrastructure, and natural resources.

For tech, limited IPO opportunities and unattractive financing, exacerbated by a backlog seeking exits, dampened acquisition appetite. This, coupled with financing challenges and converging valuations in other sectors, drove M&A activity towards strategic take-privates in resource-heavy industries like pharmaceuticals and energy. Stable-valuations and the future interest in commodities allowed cash-rich buyers such as ExxonMobil, Chevron, Pfizer, and others to realize opportunities in consolidation for future growth potential.

Beyond the shift in sector focus, another notable trend in 2023 M&A was the rise of repeatable small-to-medium acquisitions by cash-rich investors. True to the historical pattern of active investors thriving in uncertain times, these players capitalized on favorable conditions in several sectors.

Regional financial institutions, technology startups, and real estate witnessed an influx of outside buyers attracted by a confluence of factors: aggressive price convergence, significant asset depreciation, and limited cash reserves.

M&A Global Contribution, by industry (%)



Source: Goldman Sachs

Valuation changes

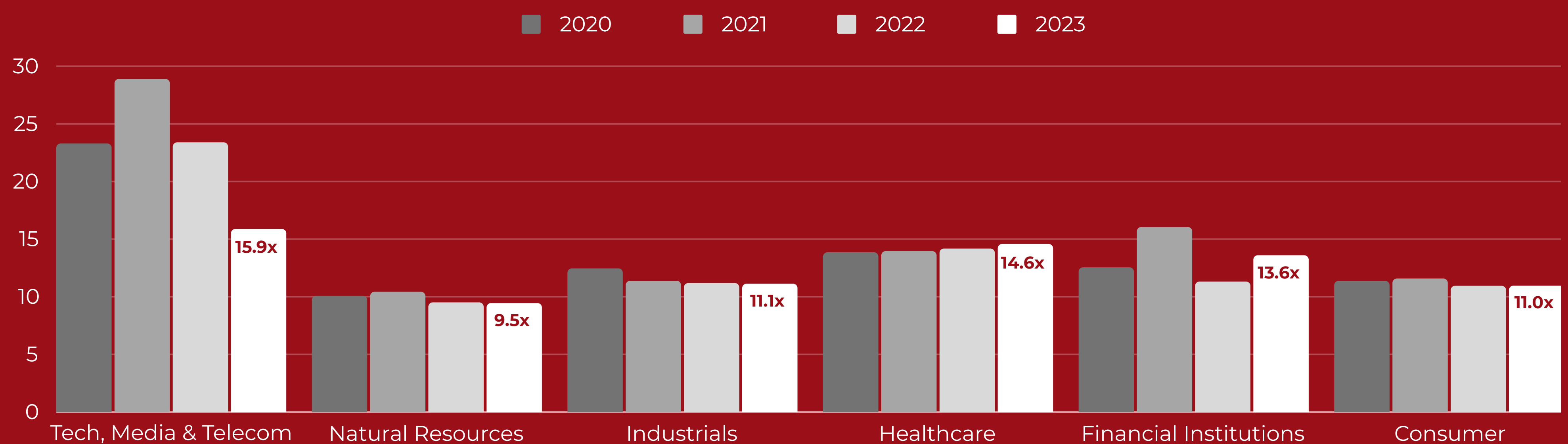
Price convergence was a key driver of M&A activity in 2023, particularly in sectors like telecommunications and information technology. These high-multiple industries saw declining valuations, leaving cash-strapped acquirers and sellers with no choice but to meet somewhere in the middle. Negotiations were arduous, contributing to the overall muted M&A activity.

- Software Valuations: **-34%**
- Telecommunications Valuations: **-20%**
- Information Services: **-31%**

However, valuation differences were less of a hurdle in other sectors. Healthcare, with its high future growth potential and appeal to cash-rich partners, maintained attractive multiples.

Conversely, the lower multiples and core value propositions of natural resources allowed for strategic consolidation opportunities downstream. Regulatory pressures also played a role, with many smaller players in heavily regulated industries like healthcare and natural resources seeking roll-up divestments to larger, stronger partners.

Median EV to EBITDA Multiples per year, by industry



Source: Dealogic & IMAA Institute

Key Participants

2023 M&A Market Participation Summary

Segment	Deal Count	Deal Value
Global M&A	-22%	-19%
Global $100M - $1B	-27%	-23%
Global $1B+	-15%	-15%
U.S. M&A	-23%	-4%
Europe M&A	-25%	-29%
Global PE M&A Exits	-37%	-53%
Global PE Acquisitions	-28%	-38%
Global Strategic Acquisitions	-17%	+3%

Source: RW Baird

Despite a general decline in the global M&A market in 2023, a curious divergence emerged between Europe and the US.

While the US witnessed a vibrant dealmaking scene, European activity lagged behind, and strategic acquisitions outshone the traditionally active sponsor M&A space.

Europe's proximity to the ongoing Ukraine war cast a long shadow on M&A confidence. Supply chain disruptions, energy price volatility, and heightened inflation all conspired to create a risk-averse environment, particularly for cross-border deals. In contrast, the US, albeit not immune to global anxieties, enjoyed relative macro stability, fostering a more conducive climate for dealmaking.

Rising interest rates in both regions made debt-fueled sponsor acquisitions less attractive. However, the impact was more pronounced in Europe, where banks generally tend to be more conservative in lending for leveraged buyouts.

Mega-Deal Reviews

In stark contrast to the vibrant mega-deal activity witnessed during the 2020-2022 period, particularly in the technology and media sectors due to their inflated valuations, 2023 saw a pronounced decline in large-scale mergers and acquisitions. While select industries presented pockets of opportunity, the broader M&A landscape was characterized by a dearth of mega-deals.

It is noteworthy that the limited number of mega-deals that transpired later in the year were primarily confined to the pharmaceuticals and energy sectors and were exclusively undertaken by strategic investors, with private equity sponsors absent from the scene. However, the complex regulatory landscape could pose a significant challenge to completing some of these recently announced mega-deals.

8 Largest Global M&A Deals of 2023

Parties	Deal Amount	Industry	Type of Transaction
Exxon Mobil & Pioneer	$59.5B	Natural Resources	Strategic
Chevron & Hess	$53B	Natural Resources	Strategic
Pfizer & Seagen	$43B	Healthcare	Strategic
Bunge Limited & Viterra	$34B	Agriculture	Strategic
Cisco & Splunk	$28B	Tech, Media & Telecom	Strategic
Endeavor Holding, UFC & WWE	$21B	Tech, Media, & Telecom	Strategic
KKR & Telecom Italia	$20B	Tech, Media & Telecom	PE
Nippon Steel & U.S. Steel	$14.9B	Industrials	Strategic

Source: Reuters

Global M&A Outlook for 2024

M&A reemergence fueled by economic trends, sector opportunities, and available capital

Macroeconomic Outlook of 2024

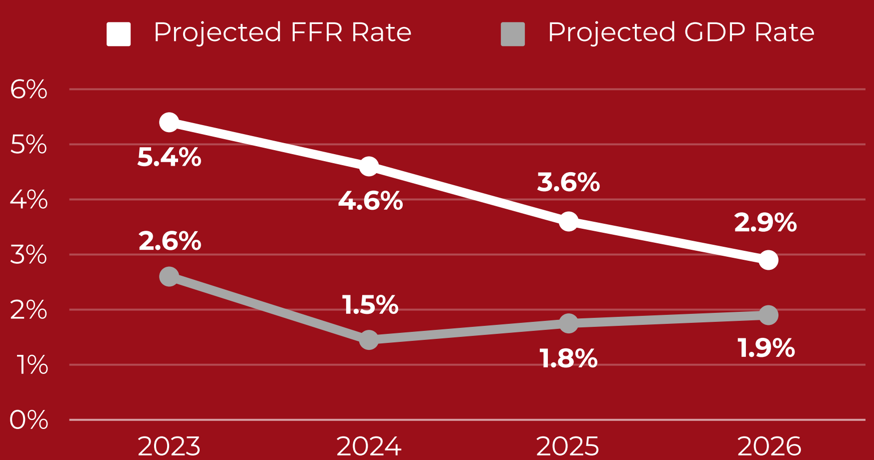
Dominating the macroeconomic narrative for several years, the inflation saga takes center stage in 2024. While the initial sting of price hikes might lessen, the journey towards pre-pandemic stability remains arduous. Central banks, the guardians of price stability, will continue their delicate dance of calibrating interest rates to tame inflation without suffocating economic growth. The delicate balance remains crucial, as overly aggressive tightening could trigger recessions, while insufficient action risks prolonging inflationary pressures.

Global economic growth, previously humming along a relatively smooth track, is expected to take a pause in 2024. The International Monetary Fund (IMF) projects a slowdown from 2.9% in 2023 to 2.7% in 2024, reflecting the combined effects of tighter monetary policy, ongoing geopolitical tensions, and lingering supply chain disruptions.

Developed economies like the U.S. are expected to experience a more pronounced slowdown, potentially dipping into recessionary territory. Emerging markets, though facing headwinds, are anticipated to demonstrate greater resilience, fueled by domestic consumption and infrastructure investments.

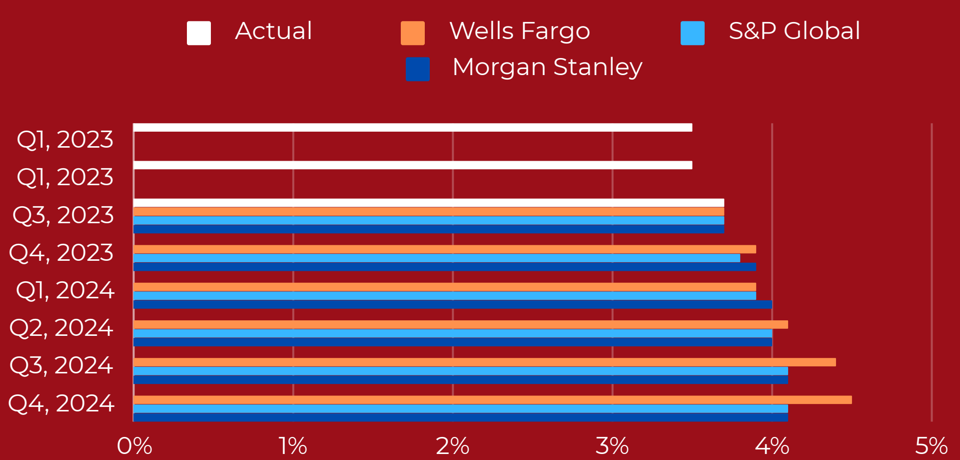
Despite the prevailing uncertainties, 2024 isn't devoid of potential upsides. Several sectors stand poised to benefit from the evolving economic landscape. Green energy, driven by ambitious sustainability goals and potential policy support, presents a compelling investment opportunity. Technological advancements, particularly in automation and artificial intelligence, could unlock new avenues for productivity gains and economic diversification.

Median Economic Projections for U.S. FFR and GDP



Source: The Federal Reserve

U.S. Unemployment Rate Forecasts



Source: S&P Global Market Intelligence

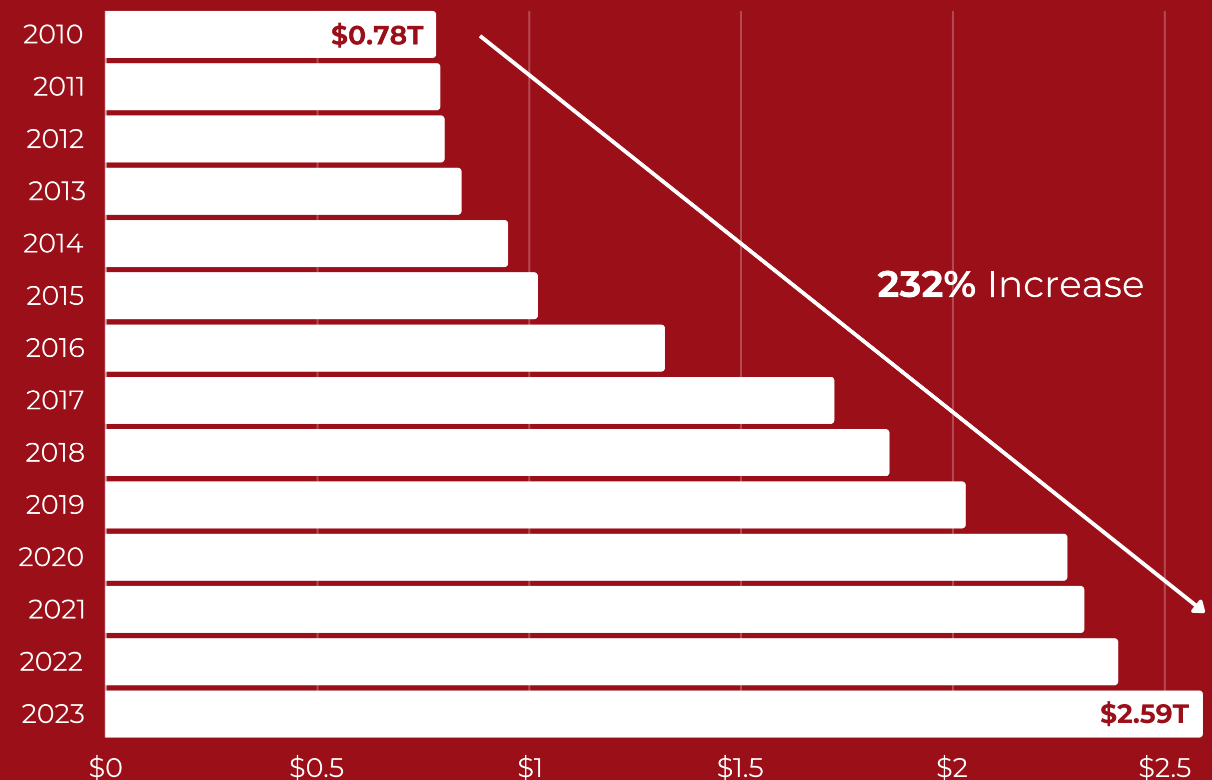
Global M&A Outlook for 2024

While cash reserves remain ample – global private equity dry powder reaching a record $2.59 trillion EOY – the dealscape has shrunk, with private equity deals declining in value sharply in the first eight months of 2023. This shift suggests a strategic retreat towards smaller, less leveraged acquisitions in response to higher borrowing costs.

However, this subdued activity may not last long as several factors point towards a resurgent sponsor M&A push in 2024. First, the prospect of falling interest rates within the next two years could unlock a flood of private equity capital, freeing up funds for acquisitions. Second, the pressure to deploy capital, especially while public markets remain buoyant, will likely intensify. Finally, a clearer economic picture, even if not rosy, could provide the confidence needed to re-enter the fray.

In essence, 2023's M&A lull might be a strategic intermission, not a curtain call. With ample ammunition, pent-up demand, and a potentially less turbulent stage, private equity players look poised to reassert their activity in 2024.

Global Private Equity Dry Powder Trend ($T), *2010-2023*



Source: S&P Global Market Intelligence

Global M&A Outlook for 2024

While record-high dry powder and increased capital availability paint a promising picture for M&A in 2024, six key factors will ultimately determine its prevalence:

Economic Clarity: Though projected GDP may dip slightly in the next two years, better-than-expected inflation and employment management suggest a more stable economic environment in 2024, bolstering investor confidence for M&A.

Price Convergence: As sellers and buyers adjust to the new economic landscape, a clearer understanding of asset valuation should emerge in the first half of 2024, resolving the discrepancies that hampered deals in 2023.

Interest Rate Cuts: Potential interest rate cuts could provide much-needed relief to tighter funding conditions, acting as a catalyst for dealmaking, even if the cuts fall short of expectations.

Geopolitical Tensions: Ongoing global unrest and uncertainty could dampen M&A activity in certain sectors and regions, especially in cross-border transactions and commoditybased transactions.

Regulatory Hurdles: Evolving regulations, particularly in heavily-scrutinized industries, could pose unexpected challenges and delays for some deals. The FTC’s 2024 engagement will be heavily analyzed by investors.

Expensive Financing: While interest rates might dip, they'll likely stay high enough to trigger extra-thorough due diligence for deals requiring leverage.

Although 2023 proved to be challenging for dealmakers, global M&A is poised for a rebound in 2024:

- Revival of sponsor dealmaking
- Industry-agnostic and AI-driven M&A
- Business consolidation
- Reemergence of cross-border activity
- Continued deal surge in energy, healthcare, and infrastructure

M&A's resurgence signals potential, but without strategic execution, that potential can easily go unrealized. We understand the pitfalls of technical due diligence, post-merger integration, and people management - the very areas where value gets trapped.

Partner with us to unlock the true potential of your M&A deals and turn them into engines of lasting success.

About mXa

mXa, on the 20+ year foundation of Method360, was founded to intentionally serve fast growth companies and the unique challenges they face. We understand that inorganic and organic growth provokes change, ambiguity, and uncertainty that can deeply burden the organizations involved.

By seeking to understand the human element in M&A and fast growth environments, mXa embraces a unique, contrarian approach in advising clients that seeks to realize maximum value for them in alignment with business objectives.

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