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M&A: OVERVIEW OF 2023 AND 2024 OUTLOOK

CAPITAL FLOWS
Part of the Horizon Scanning series

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Although 2023 has seen a decrease in both transaction volume and average transaction value, this has largely been driven by the decline in private equity activity. By comparison, the volume of corporate-to-corporate transactions has stayed more stable, with just a 15.9% decrease globally and a 6% decrease in the UK (for the first three quarters compared to 2022).

The outlook for 2024 is looking healthier. While we expect market uncertainty to continue as high interest rates remain, M&A activity is likely to increase, driven by distressed M&A, an abundance of PE dry powder, corporates seeking strategic acquisition opportunities and ESG and digital transformations.

M&A TRENDS IN 2023

Fears of a global recession in the early part of the year (exacerbated by the turmoil in the banking sector following the collapse of Silicon Valley Bank and merger of Credit Suisse and UBS), and the impact of high interest rates, led to market uncertainty for much of the year. Deal value was down globally, with few mega-deals announced in 2023, but deal volume for corporate-to-corporate generally remained strong.

Some sectors, in particular, saw plenty of M&A activity throughout the year. Energy and power was the busiest sector (accounting for 14.5% of deal value in Q1-Q3) while the healthcare sector saw a 29% increase in deal activity compared to 2022.

The slow-down in private equity M&A saw the take-private boom of UK-listed companies of recent years drive to a near halt as sponsors sit on their capital and await market stability. Instead, acquirers have generally been peers looking for strategic acquisition targets. Across the board, the increased cost of debt led corporates to consider structuring transactions as all-share mergers or by way of equity funding, as an alternative to debt financing.

As we look ahead to 2024, although not expecting a return to 2021 levels, we are optimistic that we will see a rise in M&A activity driven by the following factors.

DISTRESSED M&A

Distressed M&A is predicted to increase in the first half of 2024 as high interest rates remain and companies are forced to siphon off under-performing non-core assets to raise funds for operational capital. Thinly capitalised growth companies will be especially affected, which could have a knock-on effect on corporates dependent on such companies for outsourced services.

DRY POWDER

The slow-down of PE activity in 2023 has resulted in unprecedented levels of dry powder for sponsors. As the market becomes less volatile with the expectation that higher interest rates are here to stay, sponsors are likely to take advantage of lower valuations and seek to deploy capital on new opportunities. Similarly, we expect to see a number of PE exits in 2024 as the market begins to stabilise and sponsors look to crystallise their investments.

STRATEGIC ACQUISITIONS AND DIVESTMENTS

2024 is likely to see even more strategic acquisitions, particularly bolt-ons and peer-to-peer M&A, as companies look to synergise and reduce ongoing costs given the current economic climate. Well-capitalised companies may take advantage of current market conditions to consolidate targets in their core businesses. In a similar vein, public companies may look to the high synergy potential of all-share combinations to provide some valuation flexibility in a difficult market.

As companies look to streamline their strategy with a focus on reducing costs, we expect to see more complex carve-outs (with de-mergers as possible dual tracks) allowing corporates to exit non-core businesses and creating opportunities for PE sponsors to acquire mid-sized standalone businesses.

OTHER FACTORS

We expect to see more ESG focused transactions in 2024 as the energy transition drives corporates to reconsider their sustainability goals and as governments look to provide financial support to material infrastructure projects.

We also expect digital transformation and AI to be a key driver of M&A activity as companies consider how to digitalise their offerings. However, regulatory hurdles may deter material transactions by Big Tech and other players seen to have a dominant position, especially in retail sectors where the authorities are increasingly focused on the less affluent consumer as the cost-of-living crisis continues.

MORE SOPHISTICATED M&A

As a result of these factors, we expect many of the M&A transactions in 2024 will involve experienced counterparties and be targeted in nature. As debt financing will not be a viable option for many purchasers, transactions may require alternative financing (whether equity or vendor financing) and are likely to be more complex as a result. We expect well-capitalised buyers to have a strong hand in negotiations of price and terms.

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