2024 Global M&A Dealmakers Sentiment Report

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Foreword

The mergers and acquisitions (M&A) market has been on a wild ride over the past three years. Following a down year for activity in 2023, green shoots are beginning to sprout and dealmakers are regrouping.

Amid a backdrop of easing economic and financing conditions combined with central banks looking to cut interest rates as inflation subsides, we spoke with 300 M&A executives for our third annual survey delving into dealmaking mindset around the world. In this latest study, we set out to determine how sentiment is faring at what feels like a possible economic inflection point. Dealmakers' outlook on prescient topics such as artificial intelligence (AI) and how perceptions of sustainability are developing in the face of political pushback were also among the key subjects of conversation in this research.

About this research

In Q4 2023, Mergermarket surveyed 300 mergers and acquisitions (M&A) dealmakers from 225 corporate and 75 private equity (PE) firms. Among those, 100 are headquartered in North America, 75 in Europe, the Middle East and Africa (EMEA), 75 in Asia Pacific (APAC) and 50 in Latin America (LATAM).

Among those, 17 percent of corporates have their main sector of focus in Industrials & Chemicals, 15 percent in Technology, Media & Telecoms, and 14 percent in Energy, Mining & Utilities. Forty-eight percent of corporates have an annual turnover greater than USD three billion. Fifty-three percent of PE respondents have assets under management of less than USD 10 billion.

On a general basis, all charts show overall figures except when figures based on region or corporate/PE are statistically significant.

KEY FINDING 01

Asia's ascendance

50%

expect the level of M&A to increase at least somewhat over the next 12 months.

Respondents based in Asia Pacific are by far the most bullish about their home region's expected dealmaking prosperity in the near term. More than two-thirds of respondents based in APAC expect the level of M&A activity there to rise over the next 12 months, including 25 percent who say M&A levels will increase significantly.

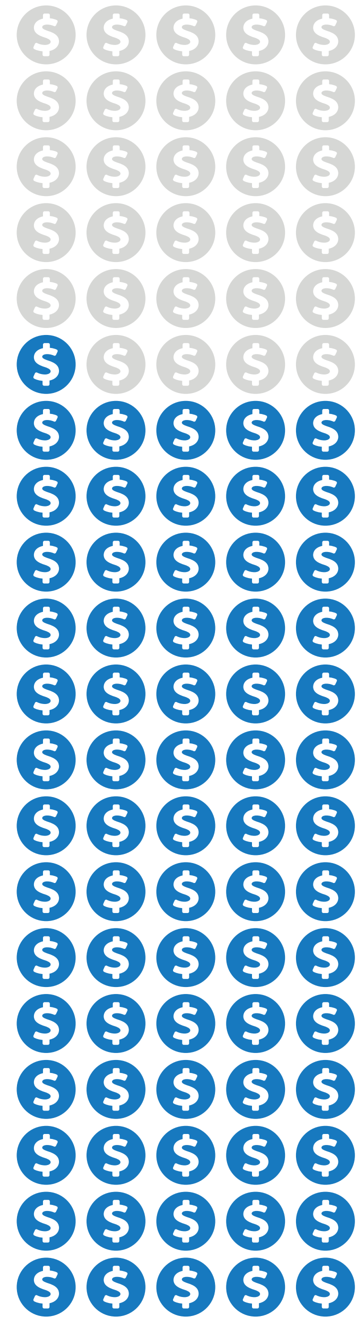
KEY FINDING 02

Financing efforts

71%

believe financing conditions will be more challenging over the next 12 months.

Even as M&A deal volumes recover, almost three-quarters of respondents expect it to become more difficult to secure deal financing in the near term, and just under a third (31 percent) say financing will be the most difficult part of the M&A process.



KEY FINDING 03

Spirit of sustainability

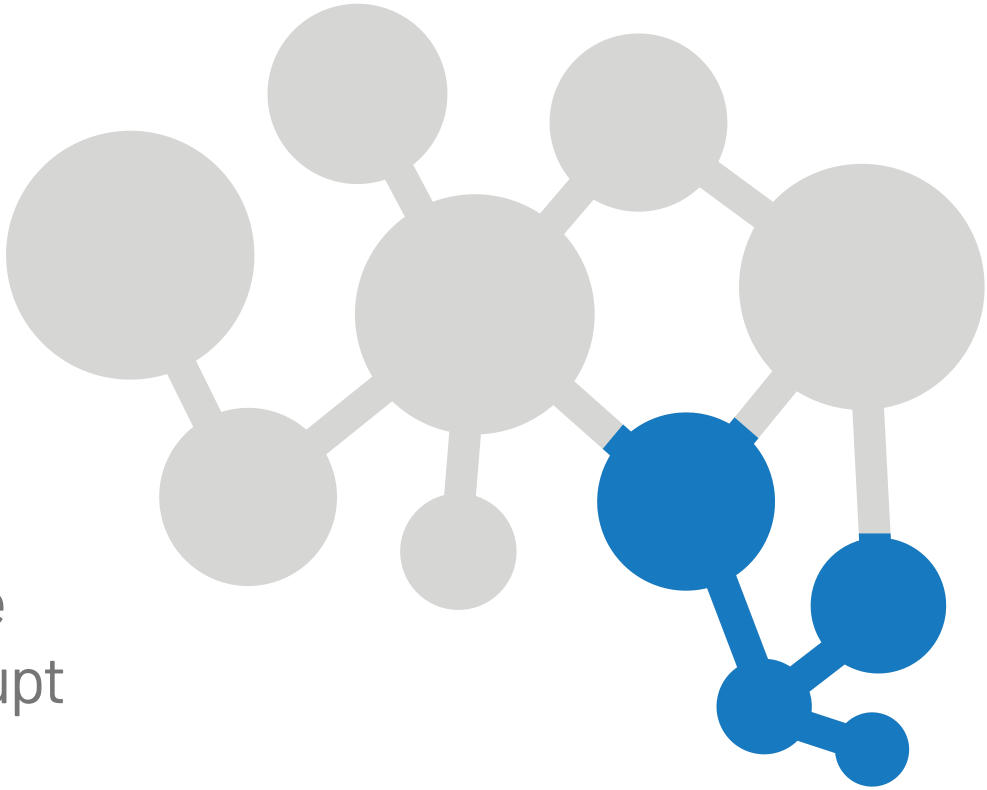
84%

expect ESG regulation to increase over the next year.

Nearly nine in ten respondents are forecasting a rise in regulation around environmental, social and corporate governance (ESG) and sustainability standards in 2024. Hopefully, this goes some way toward mitigating the lack of clarity on standards, which 71 percent identify as a major challenge to making ESG-oriented investments.

KEY FINDING 04

Digital disruption



24%

cite data analytics as the trend that will most disrupt M&A in 2024.

Just under a quarter of respondents believe developments in data analytics will be highly disruptive to dealmaking over the next 12 months, and almost as many say the same of deal automation (22 percent) and cybersecurity (21 percent). Relatedly, most respondents (53 percent) report having had to deal with greater concerns surrounding security/cybersecurity in M&A deal processes over the past 12 months.

Market Sentiment and the M&A Environment

While navigating severe economic turbulence, corporate dealmakers have defied pessimistic outlooks with resilient M&A activity, feeding hopes of a soft landing.

In early 2023, the glass seemed little more than half full. After a tough year for capital markets for much of 2022 and central banks only midway through their policy-tightening cycle, there were few tailwinds. The U.S. regional banking crisis that started with the collapse of Silicon Valley Bank in March 2023 and was followed soon after by the failures of Silvergate Bank and First Republic Bank gave pessimists yet more reason to expect the worst.

Exactly how soft the forthcoming landing will be is a point of ongoing debate, but all things considered, dealmakers have so far largely proved the doubters wrong. Taken as a whole, 2023 global deal volume and value were down by only 15.8 percent and 16 percent year over year, respectively, to 36,640 transactions worth USD 314.5 billion in aggregate. Considering corporate M&A specifically, volume was down by 12 percent, but total deal value rose by 3.7 percent year over year to USD 219 billion.

Large strategics in certain sectors were able to capitalize on their elevated share prices to underwrite new deals. A case in point, Exxon Mobil's USD 65.3 billion all-stock acquisition of Pioneer Natural Resources contributed a fifth of all transaction value in 2023. Illustrating a broader trend toward sustainability, the deal aligns with Exxon's long-term goals, particularly its initiative to achieve net-zero Scope 1 and Scope 2 greenhouse gas emissions from its Permian unconventional operations by 2030.

Chevron Corp. made a similarly ambitious all-stock funded deal of its own, acquiring Hess Corp. for USD 59.7 billion. Chevron is looking to strengthen its traditional oil and gas business, reduce carbon intensity and expand into lower-carbon businesses. Sustainability was again a strong motivator here. Hess has been recognized for its strong performance in this area through its inclusion on the Dow Jones

Sustainability World Index and the North America Index. These two megadeals, combined with Pfizer's USD 45.7 billion purchase of cancer drug business Seagen, represented more than half of all M&A value in 2023.

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Sponsor slump

PE firms faced a tougher year than their corporate counterparts as sharply higher interest rates disrupted their business model. Volume was down by 25 percent to 9,572 deals, a low not seen since 2017. PE deal value simultaneously collapsed by 41.4 percent to USD 95.5 billion.

This reflects the relative strength of the mid-market. As central banks raised interest rates to combat inflation, borrowing costs surged. Higher rates resulted in more expensive debt financing, making it costlier for PE funds to pursue leveraged buyouts (LBOs), which in turn can lead to a decrease in the value of deals being made. Recession fears also made banks and institutional investors hesitant to fund large, leveraged transactions.

H1 2023 was also challenging for the syndicated loan markets, on which large-cap sponsors depend to finance their LBOs. Promisingly, this showed signs of easing in the latter half of the year, with leveraged loan issuance reaching USD 257.5 billion in Q4, a seven percent increase from Q3 2023.

Only two PE deals feature in the year's top 10 M&A transactions, and only one of these had a financial sponsor on the buy side. These were the sale of data analytics software company Splunk to Cisco Systems by Hellman & Friedman and activist hedge fund Starboard Value for USD 29.7 billion. The largest entry, meanwhile, saw KKR and the Abu Dhabi Investment Authority buy out Telecom Italia's fiber network business FiberCop for USD 23.3 billion.

Guarded optimism

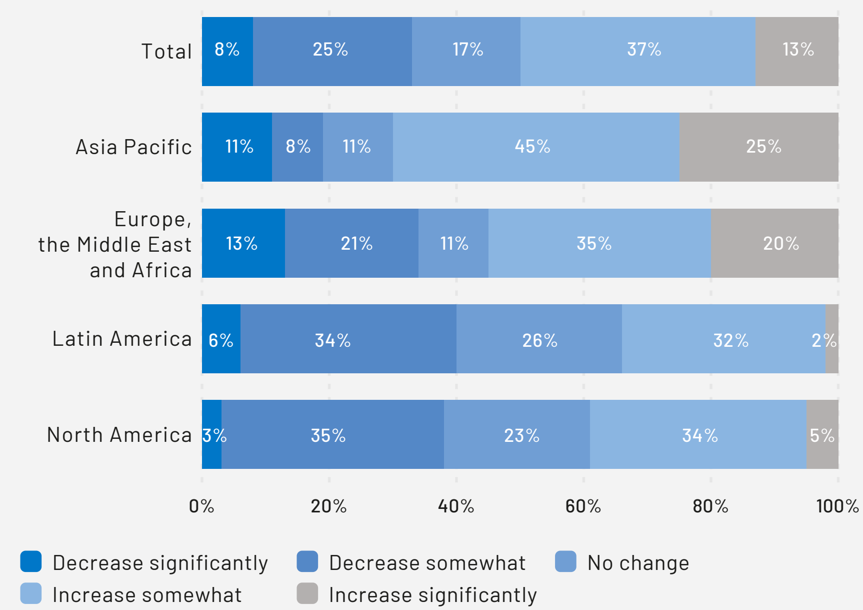
Looking ahead, dealmakers are cautiously leaning toward optimism. Exactly half of respondents expect the level of M&A over the next 12 months to increase—this includes 13 percent who expect M&A levels to rise significantly. A third anticipate deal activity falling and only eight percent foresee a major decline. Year over year, however, respondents' optimism has waned somewhat. In our previous survey, 62 percent expected to see the M&A market pick up, including 23 percent who expected it to increase significantly.

Respondents based in APAC are the most bullish. This part of the world lagged the global average for deal value in 2023, with the USD 76.8 billion it recorded representing a year-over-year decline of 19 percent, with a decline in volume of 14 percent from the previous year. In any case, acquirers there are confident in a rebound as APAC remains the fastest-growing economic region in the world by a considerable distance, benefiting from a bright long-term outlook. As much as 70 percent of this group expect the level of M&A to increase this year.

PE bulls

Respondents based both at PE firms and at corporates expect to be active M&A market participants in 2024, although the former are poised to execute more deals. We found that 31 percent of corporates expect to undertake four or more M&A deals in the next year, with 85 percent of PE-based respondents expecting the same pace of acquisitions.

What do you expect to happen to the level of M&A activity over the next 12 months?



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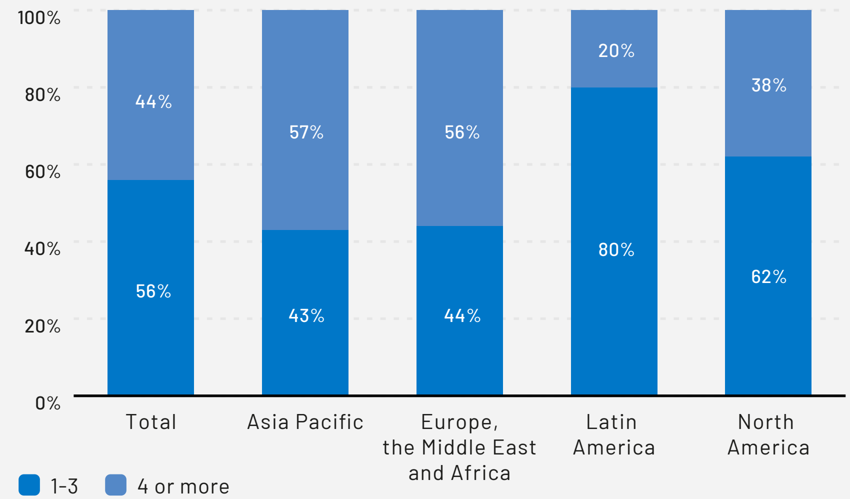
Despite the weaker exit environment slowing the flow of recyclable capital back into fundraising, PE is sitting on more dry powder than ever, partly as a consequence of their lower rate of deployment—Preqin data show this uninvested capital stood at USD 2.59 trillion as of early December 2023. Given the substantial capital overhang, PE funds are under pressure from investors to put these capital commitments to work. This situation is particularly pertinent for fund managers intending to launch new funds to encourage re-ups from their existing investor bases.

It is the middle market that is expected to see the bulk of the action among both investor types, with 93 percent of respondents expecting to undertake deals in this bracket. In the current macroeconomic environment, the middle market in the U.S. has shown strength. According to the *Mid-Year 2023 Middle Market Indicator*, a survey of U.S. C-suite executives, these businesses continued to be a dependable engine of growth, demonstrating sustained positive results in areas such as top-line revenue and employment growth. Deals of this size have long been supported by the rapidly growing private credit space, and many dealmakers may anticipate it would be easier to pull off mid-range deals as financing conditions remain tight. However, there are increasing signs that direct lenders' appetites are growing. In August, Oak Hill Advisors led a consortium to provide a USD 5.3 billion refinancing package to the fintech Finastra Group, the largest such arrangement to date.

How many M&A deals do you expect to undertake over the next 12 months? (Select one.)



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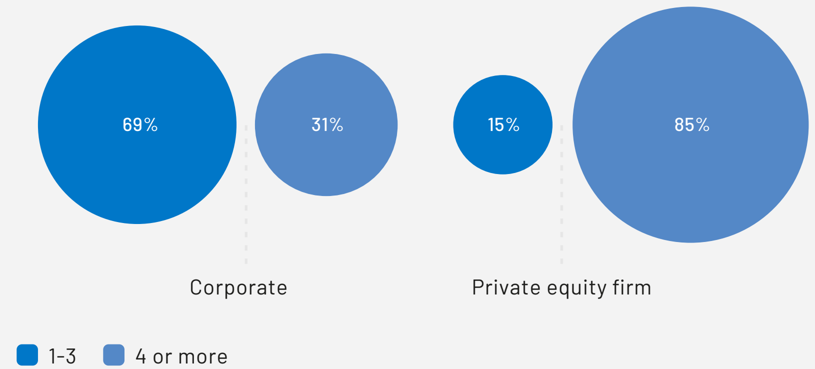
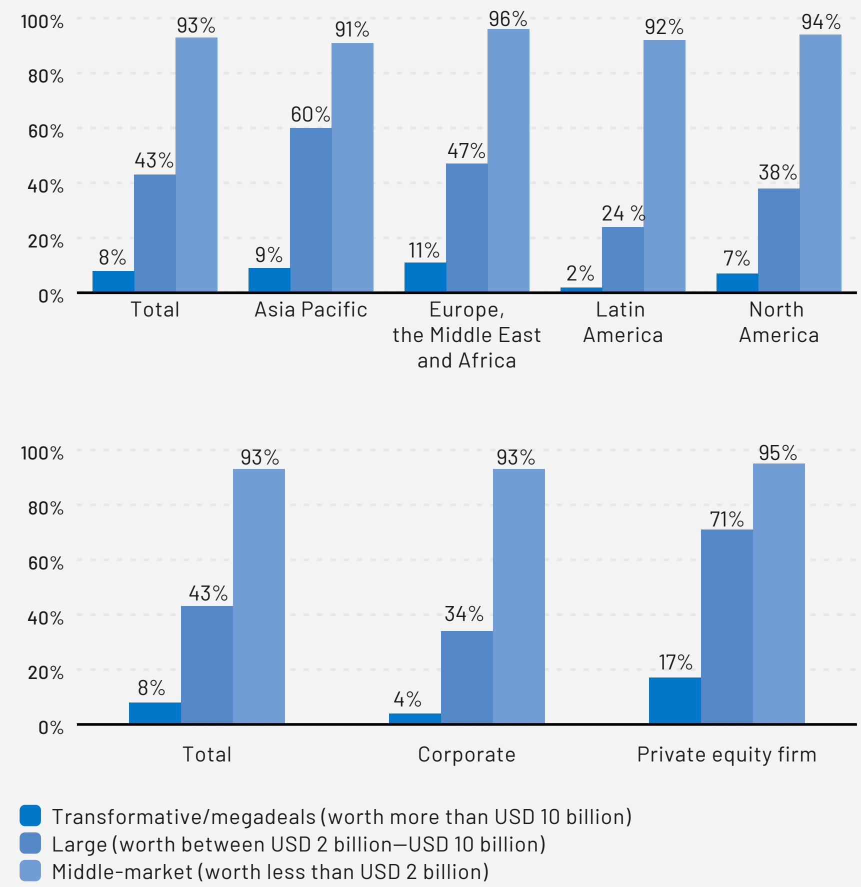


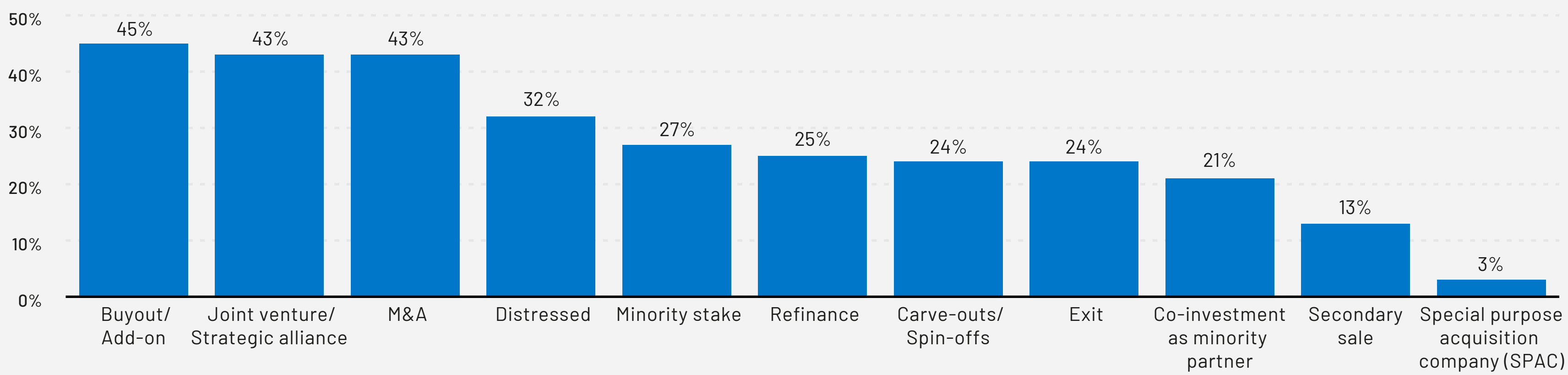
Not only do financial sponsors see themselves making more deals than corporates do, but after a quiet period for PE megadeals they also have their sights set on the top end of the market. As much as 71 percent of these respondents expect to do large deals (between USD 2 billion and USD 10 billion) in 2024, compared with 34 percent of corporates who say the same. The clock is ticking on PE firms' dry powder piles, and fund managers are conscious of getting capital out the door.

Any easing of credit conditions this year will be felt in the large-cap end of the market, which has been especially sensitive to higher rates. Many believe that relief from central banks is not too far off. In late December, bond markets were foretelling a U.S. Federal Reserve pivot by as early as March, only for those expectations to be reined in following a hotter than expected inflation print to end the year. Regionally, it is Asia Pacific investors that are most eager to lean into bigger-ticket plays, with 60 percent of these respondents expecting to make large deals, the highest proportion of any region.

What size of M&A deals do you expect to undertake in the next 12 months? (Select all that apply.)



Which deals are your company most likely to be involved in in the next 12 to 18 months? (Select top three.)



As for the most popular types of deals, buyouts, joint ventures (JVs)/strategic alliances, and M&A have a roughly equal preference among acquirers, seeing respective top-three vote shares of 45 percent, 43 percent and 43 percent. Each option has its place and its trade-offs. JVs may be attractive for those looking to mitigate risk and cap their equity exposure to an asset.

A head of strategy at a transportation company in Japan told us they are considering these ventures because "more experts involved in the decision about investing in a company" will provide "wider perceptions that are useful for identifying risks." Of course, this comes at the expense of board representation and influence. "There is more control of the assets when it comes to buyouts as compared to a minority share or JV arrangement. This is where we will look for opportunities in 2024," shared the head of finance at a TMT company in India.

M&A Expectations

The regions expected to see the highest M&A growth this year are Asia and the Middle East.

It is no coincidence that some of the highest rates of economic growth can be found in these markets. Just under half of respondents (45 percent) view Asia (excluding China and Japan) as being among the top two regions that will most likely see a deal rebound.

The International Monetary Fund (IMF) expects India's GDP to have registered growth of six percent in 2023, the fastest pace of any major economy. Much of Southeast Asia has also been displaying similarly impressive growth, such as the Philippines and Vietnam, whose economies expanded by 5.8 percent and 5.5 percent, respectively.

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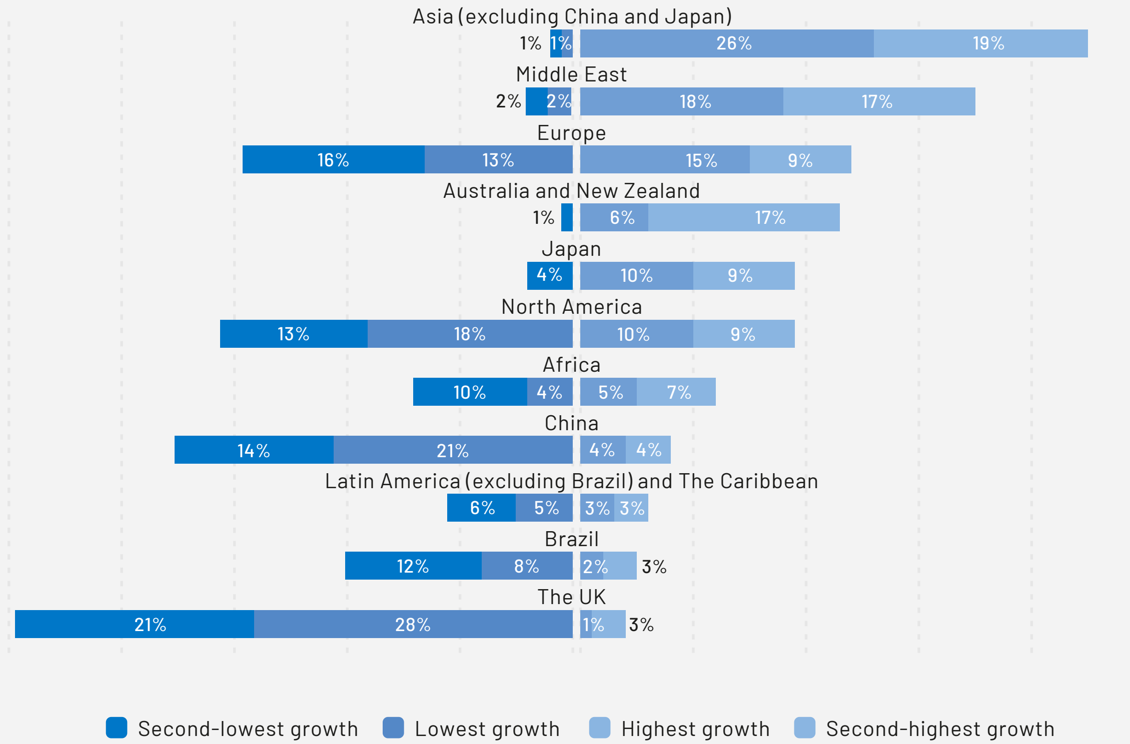
Opinions have shifted since last year, when Europe and North America were seen as the regions that were most likely to see the highest growth in dealmaking, by 46 percent and 45 percent of respondents, respectively. In reality, all regions ended up seeing a decline in deal activity.

In stark contrast to the bullish outlook on Asia (excluding China and Japan), investors have a far less optimistic view on the U.K.'s and China's deal markets for 2024, with almost half (49 percent) and more than a third (35 percent) of respondents expecting these two deal markets, respectively, to underperform in 2024.
The U.K. economy defied initial expectations of a recession at the start of 2023, but growth of 0.5 percent made the country a regional laggard in Europe. Supply-chain frictions because of Brexit compounded already high inflation, weighing on the economy.

China's economy experienced a post-pandemic bump, with the IMF revising its GDP growth forecast to 5.4 percent for 2023. This upward revision was influenced by stronger-than-expected output in Q3 and new policy support from the government. However, persistent challenges in the real estate sector and subdued external demand are expected to see growth decelerate to 4.6 percent in 2024 and to around 3.5 percent by 2028 due to weaker productivity and the country's aging population.

Which regions will see the highest growth/lowest growth in the next 12 months? (Select the two most affected, 1 = highest growth/lowest growth, 2 = second highest growth/second lowest.)



What goes up...

Of all sectors expected to see the highest growth in deal activity over the next year, Technology, Media & Telecoms (TMT) stands head and shoulders above the rest. Nearly two-thirds of respondents (61 percent) think the sector is the most likely to see an uptick in 2024, followed by 45 percent who share the same view of Industrials & Chemicals.

That would represent a welcome return to form after a down year for TMT. In fact, although it maintained its lead, it had the worst year-over-year volume performance of any sector globally in 2023, falling by 29 percent to 8,630 transactions. Total value was even more challenged, slumping by 38 percent to USD 62.7 billion.

Technology's fall from grace after peaking in 2021 was one of the most noteworthy trends of the past two years, as elevated valuations from the cheap-money era could not be sustained. While the S&P 500's Big Tech stocks have been doing the heavy lifting for the index since late

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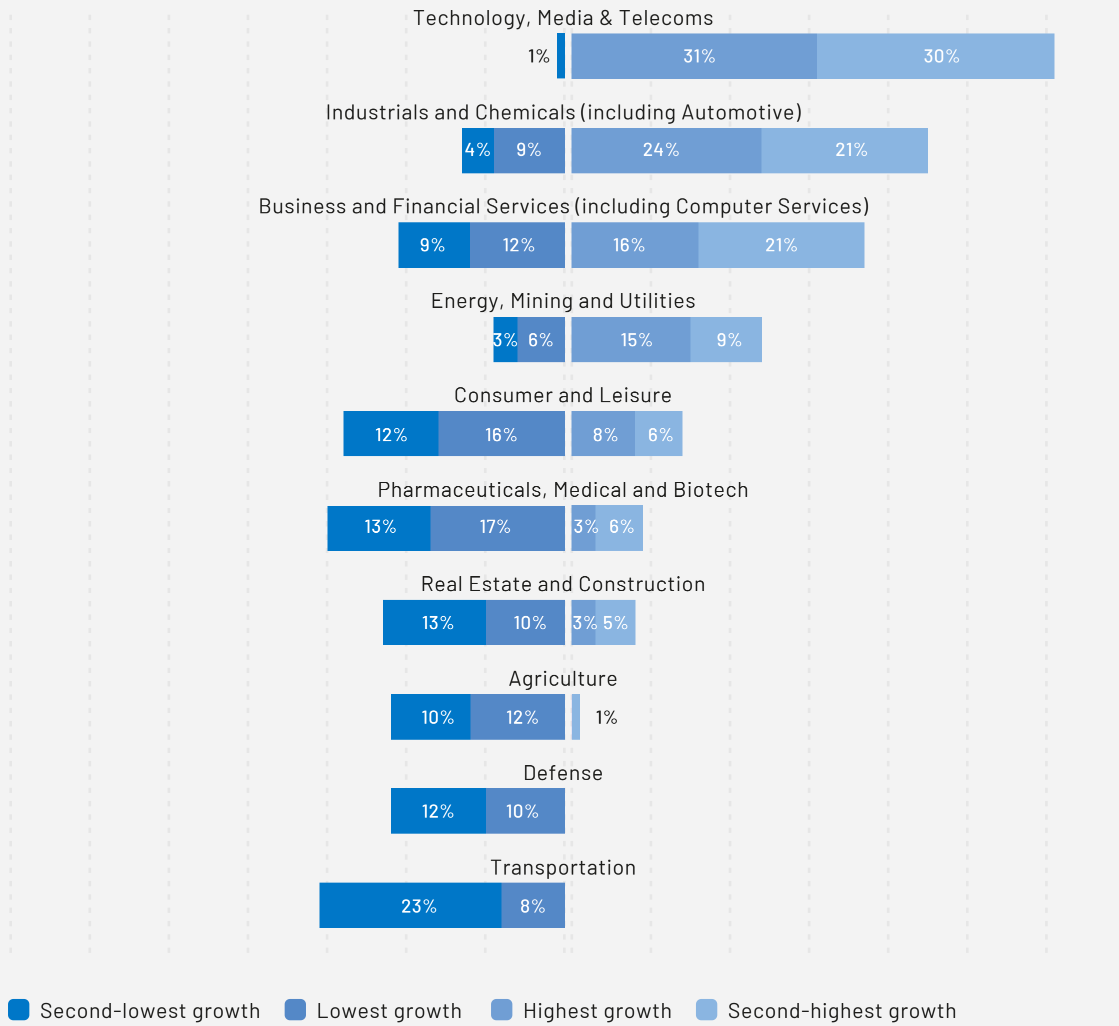


2022, the fact remains that many lesser-known, less mature companies are still struggling.

Gartner, an M&A research and advisory firm, predicts that 2024 may kick off a fresh wave of tech M&A, spurred by start-ups' chastened access to venture capital (VC) funding. The firm believes the year will be defined by ongoing economic uncertainty, characterized by a mix of contradictory indicators influencing inflation, recession risks, employment rates, capital costs, and business and consumer confidence levels. In this ambiguous environment and with VC fundraising at a multi-year low, tech start-ups may be led toward exploring alternatives, opting to be acquired by larger, financially stable corporates.

Artificial intelligence (AI) has rekindled investors' love for Tech over the past year. While this has yet to manifest in an M&A spree, the *2023 Gartner CEO and Senior Business Executive Survey* highlights AI as the leading disruptive technology impacting countless industries. For companies lacking the expertise or the developmental timeframe to build AI capabilities in-house, M&A offers a viable fast-track to access this technology.

...Must come down

Acquirers are less optimistic about forthcoming deal activity in the transportation and pharmaceutical, medical & biotech (PMB) sectors. Around a third of respondents (31 percent of top-two votes) believe transportation will see the lowest M&A growth this year and 30 percent say the same of PMB. They are more bearish on PMB though: 17 percent have the sector as their first choice, ahead of any other industry.

This is somewhat surprising, given that PMB has just come off the back of a solid year. Though deal volume fell by 10 percent to 3,370 transactions, year over year this outperformed the cross-sector mean. Moreover, aggregate PMB deal value rose by 17 percent to USD 45 billion, making it one of only a handful of sectors to see gains through 2023.

Whether this momentum now eases off remains to be seen, but several factors are prompting major pharmaceutical companies to engage in M&A. High financing costs and the desire of shareholders for a more targeted, strategic approach are leading these corporates to undertake significant divestitures as a means of raising capital. A notable example was Johnson & Johnson's divestment of its consumer division, Kenvue, in August, which added USD 13.2 billion to their potential M&A purse. At the same time, the valuation of biotech companies has declined significantly over the past two years. Many of these firms are now reaching a level of drug development that positions them as attractive strategic acquisition prospects.

Structural integrity

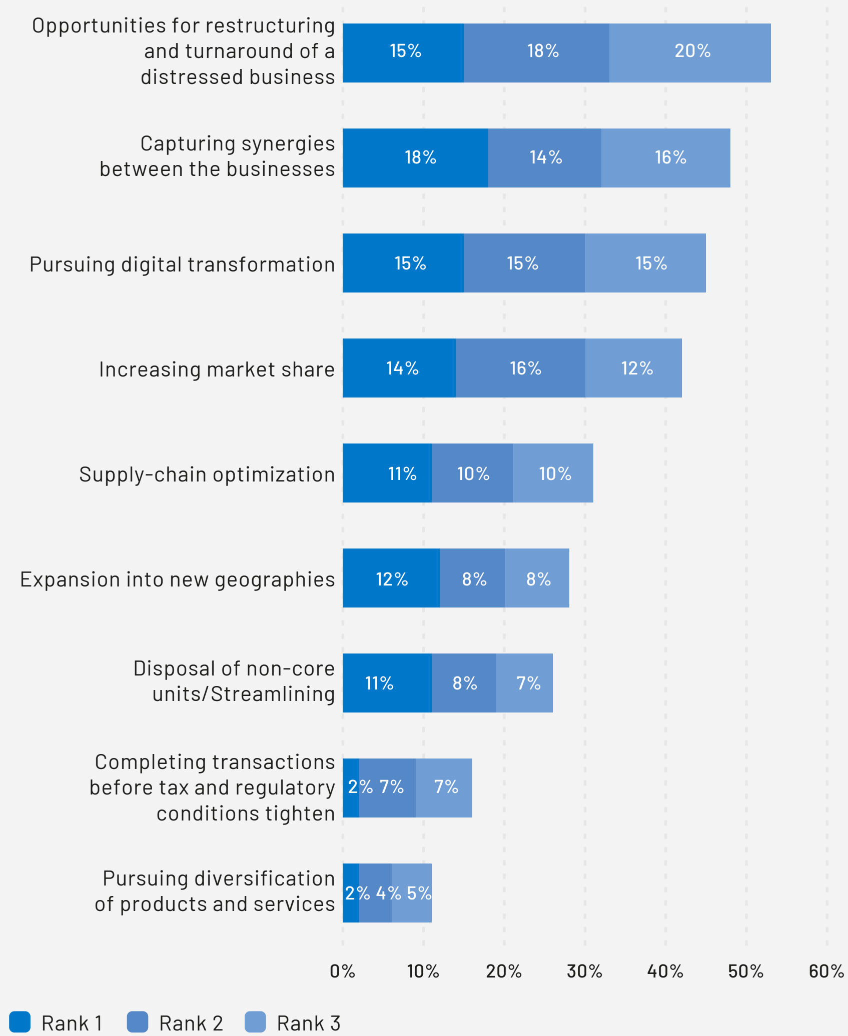
Tight financing conditions are preoccupying investors. When considering which key drivers of M&A activity will be the most important in the coming 12 months, 53 percent of respondents identify opportunities for restructuring and turnaround of distressed businesses.

Companies under financial strain, carrying high levels of debt and in need of refinancing, are especially prone. The often-spoken-of but lesser-seen debt maturity wall has begun to steepen. High-yield issuers and leveraged PE portfolio companies that borrowed at rock-bottom rates are beginning to face looming maturities, with their coupons potentially doubling and even tripling if interest rates remain where they are. Even if central banks do eventually cut rates this year, terminal rates are expected to be higher than they have been since the 2008 financial crisis, making many capital structures unviable.

This will play to the strengths of distressed debt and PE firms with turnaround experience. These investors have the expertise and capital to invest in struggling companies, address their cap structures, and restructure their operations, and eventually sell them on for healthy profits. "Buyout opportunities have always been the main focus of our firm, but we have the resources to initiate a turnaround of a distressed business if we see something we like," says the managing director of a well-positioned PE firm in the U.S.

The time-tested capturing of cost synergies will continue to be another important M&A driver, as cited by 48 percent of respondents. While it is true that inflation trended down

What will be the key drivers of your M&A activity over the next 12 months? (Select the top three and rank 1-2-3 by order of significance, where 1 = most significant.)



in 2023, an encouraging trend, prices were still rising at above-target rates heading into 2024. Elevated input and wage costs are making synergistic M&A more important than ever, which is an important motivation for both corporate acquisitions and PE add-ons to existing platforms.

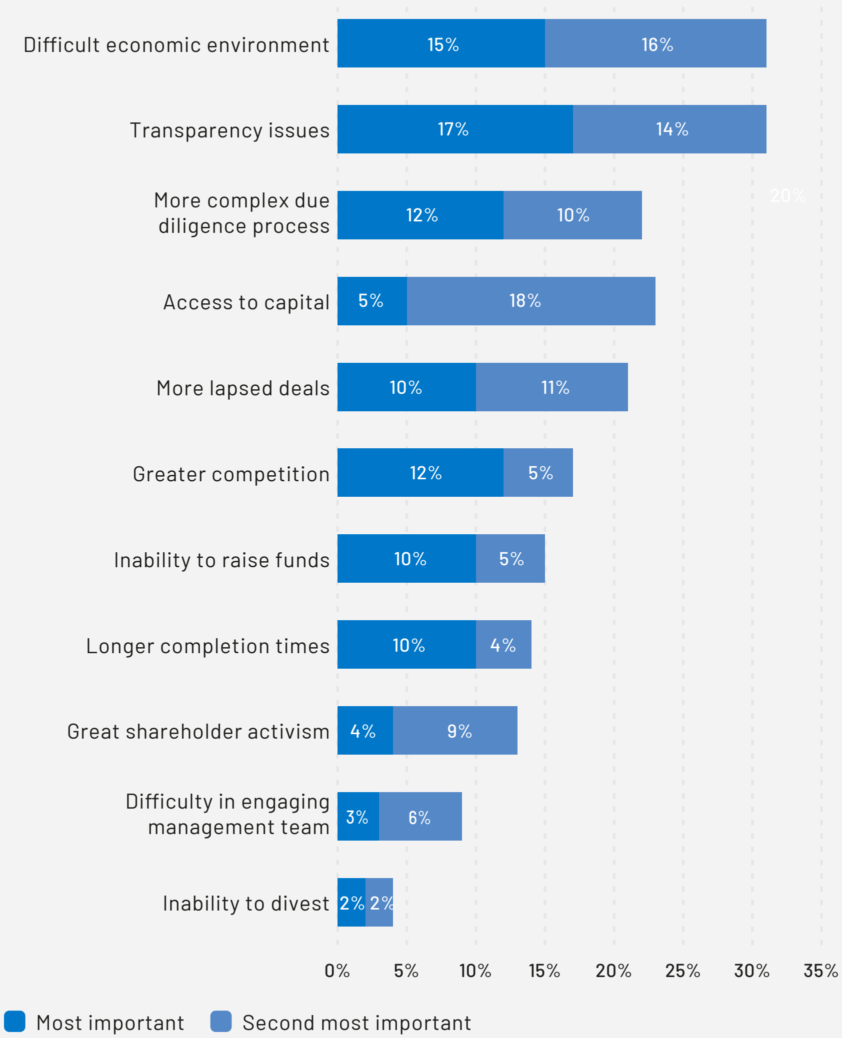
"The key driver of M&A for us will be capturing synergies," says the head of corporate strategy of an energy company in Chile. "We work in a capital-intensive business and it is essential that we consider cost benefits as a central part of our M&A efforts."

Leaping hurdles

Among the greatest near-term challenges to M&A, the difficult and unpredictable economic environment is cited by 31 percent of respondents within their top-two votes, and an equal share point to transparency issues.

Acquirers must keep in mind deal targets' ability to navigate today's economic challenges and will need to remain extremely diligent when vetting targets. This applies to transparency and data integrity when moving through to the due diligence stage, and scrutinizing business metrics and documents in virtual data rooms (VDRs).

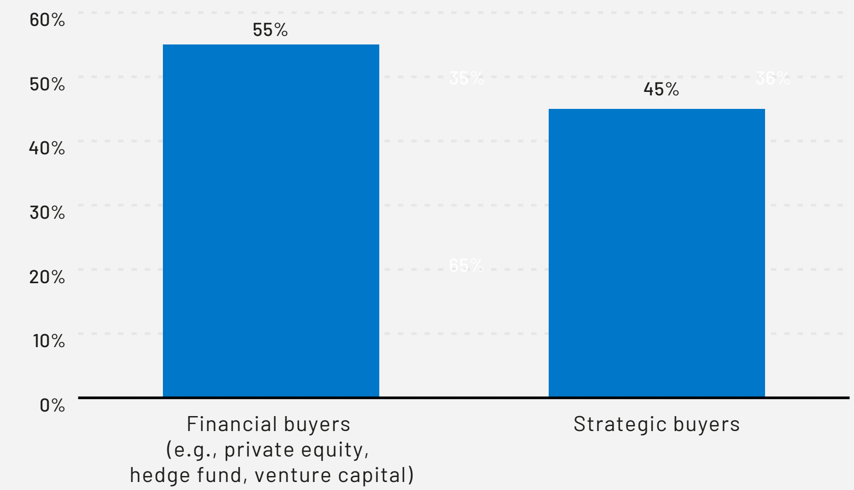
What challenges do you expect to see in M&A in the coming 12 months? (Please select the two most important, 1 = most important, 2 = second most important.)



In the face of uncertain macroeconomic conditions, investors are fairly evenly divided on what type of acquirer is best placed to take advantage of buying opportunities. Just over half (55 percent) believe financial sponsors stand in good stead, while 45 percent think strategics have the upper hand. The truth is this will very much depend on a host of variables including the deal target and buyer in question.

Corporates with cash-heavy balance sheets, high credit ratings and benefiting from high share prices, thanks to their performance and sectoral tailwinds, will have ample financing options at their disposal. High rates have been a definite disadvantage for the leverage buyout model, though many PE firms have large war chests, shown by record levels of dry powder, and are well placed to take advantage of turnaround opportunities and carve-outs, even if deals continue to require higher-equity contributions in the near term.

Which of the following do you feel are better placed to take advantage of buying opportunities in the current macroeconomic environment?



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Sustainability: Preparation and Process

The pursuit of sustainability shows no sign of abating, with policymaking pointing in one direction.

In the European Union, key rules such as the Sustainable Finance Disclosure Regulation and the EU Taxonomy are now embedded since becoming mandatory in 2023. In the U.S., meanwhile, the Securities and Exchange Commission's climate-related disclosure rules, expected to come into effect in April 2024, will require public companies to report on greenhouse gas emissions and other climate matters. This includes disclosing climate change risks to operations in their filings.

Over the past 12 months, acquirers have become more convinced that rulemaking will ratchet up in the near future. We find that 84 percent of respondents expect ESG regulation to increase over the next year, and among those based in North America the proportion is 88 percent. In last year's survey, 73 percent said they expected there to be more ESG regulation in the 12 months after that study was conducted.

While countries like China, Singapore, Australia, Malaysia and Japan are developing their frameworks, addressing aspects like green finance, sustainability reporting and climate-related financial risks, the approaches and comprehensiveness of these regulations vary widely. Many Asian jurisdictions are

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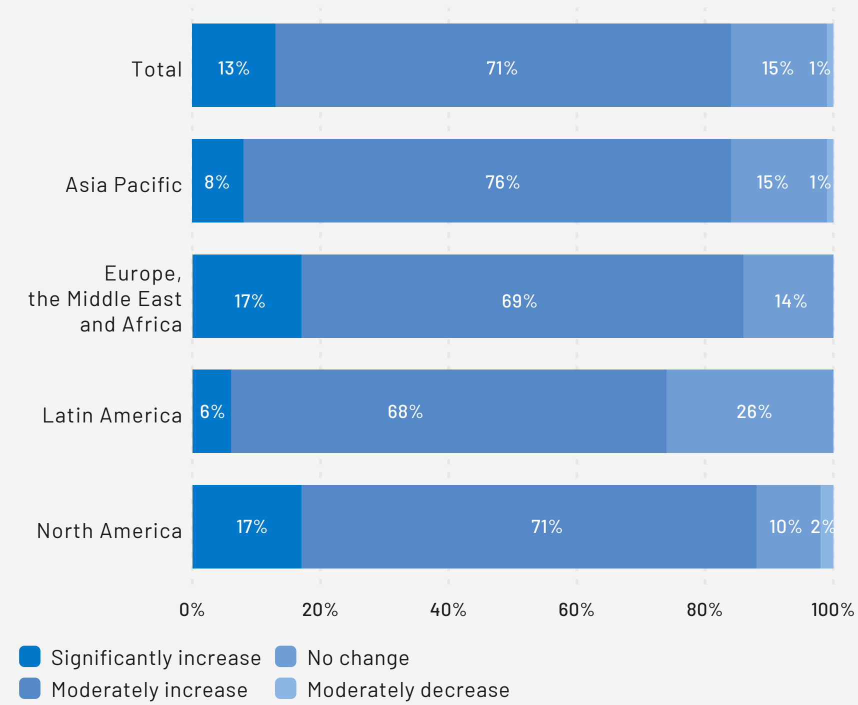
increasingly aligning with international standards like the Task Force on Climate-related Financial Disclosures. But there is a mix of mandatory and voluntary approaches, and, in some cases, the focus is more on managing risks than on broader sustainability goals.

Increasing regulatory oversight is just one reason why buyers are having to adapt their due diligence approaches. In addition to identifying any potential compliance red flags, these considerations are now critical in assessing sustainability-related risks and opportunities, since they can affect the financial performance, reputation and long-term operational viability of a business. Two-thirds (67 percent) of respondents say they expect due diligence in respect of ESG to attract more scrutiny in the next three years. Those based in EMEA (74 percent) and North America (75 percent) are significantly more likely to say this compared to APAC investors (64 percent), reflecting the latter's earlier stage of implementation to date.

Energy efficiency and greenhouse gas emissions are among the two most important ESG considerations respondents are tackling, each receiving 45 percent of votes. And it is not just corporates in highly regulated capital markets that are making this a priority as a matter of mandatory disclosure.

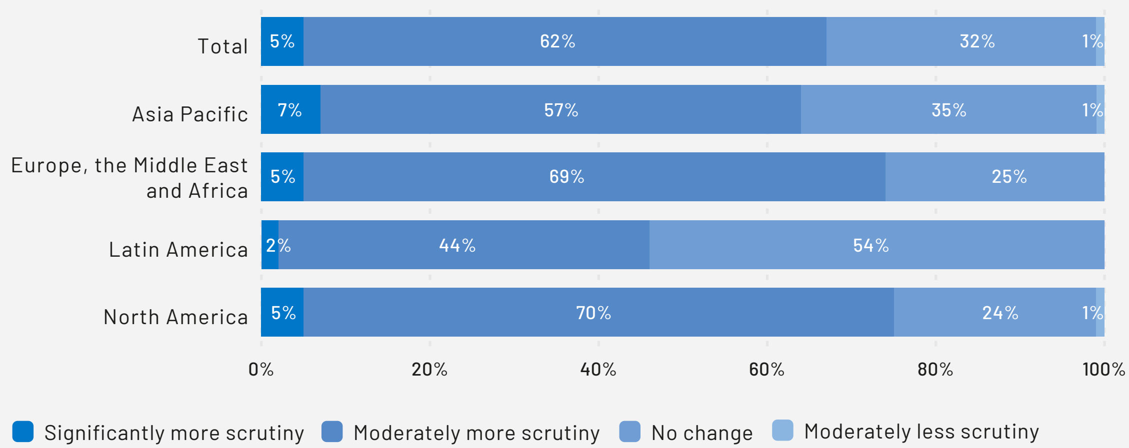
How do you expect the level of ESG regulation in M&A to change over the next three years?



What are the most important ESG considerations when contemplating investing? (Select top two answers.)

Financial sponsors recognize that these are essential levers for adding value and boosting investor returns over the long run. A managing director of a Swedish PE firm told us: "Energy efficiency has to be managed more proactively by companies today. Companies cannot use the same amount of energy they were using five years ago. A slow transition to renewable energy is important to us."

How do you expect due diligence to change in terms of ESG factors in transactions in the next three years?



There is little doubt that environmental sustainability is important for investors, though "S" and "G" considerations are showing precedence. Specifically, 46 percent of acquirers say that labor standards are one of the most pressing considerations today and, more than that, business ethics and transparency lead, with 50 percent viewing this as a top priority.

"Business transparency and ethics are very important considerations," says the head of finance of a TMT company in India. "When we invest in technology and business services units, we have to check the level of information transparency. This helps us to both understand whether their standards align with our own and determine the potential for synergy."

Moving benchmarks

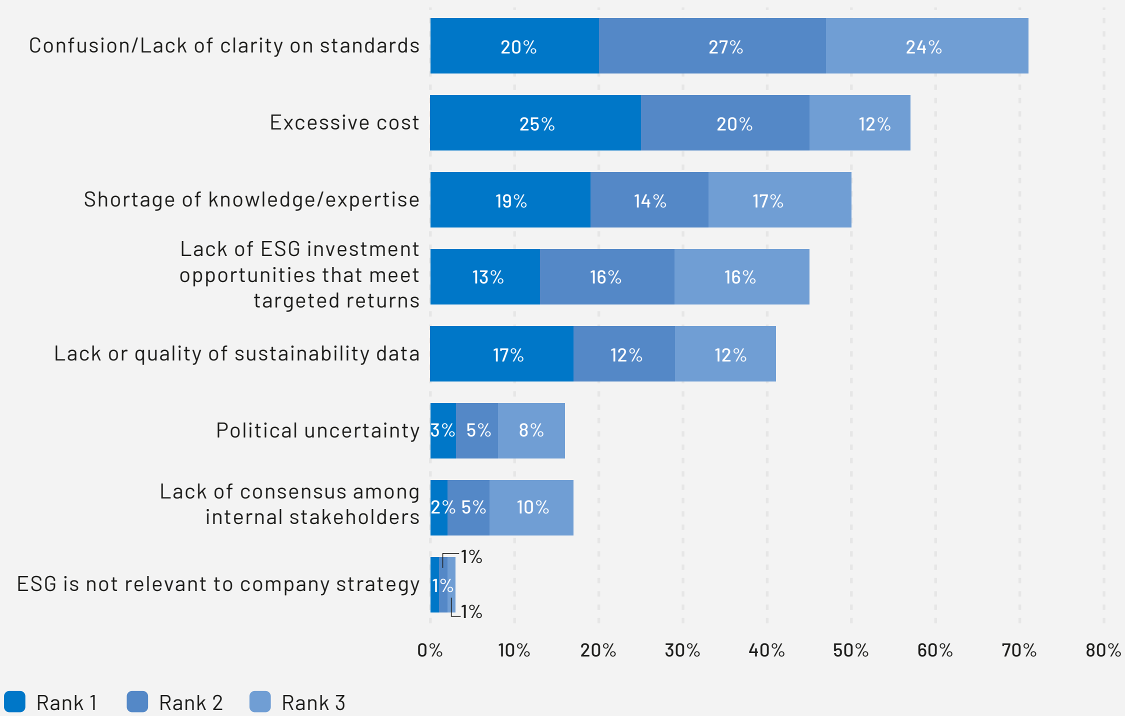
Unlike financial reporting, which has well-established and universally accepted standards such as the Generally Accepted Accounting Principles and International Financial Reporting Standards, ESG reporting is still evolving. Different organizations and frameworks offer varying guidelines, which can be confusing for investors trying to compare performance across companies or industries.

In August 2023, S&P Global decided to discontinue the use of an alphanumeric ESG scale introduced in 2021. This scale was used to score publicly rated entities on various factors when assessing their credit quality.

Ostensibly, the reason behind the move was that analytical narrative paragraphs in credit rating reports were effective at providing these details and improving transparency. Reading between the lines, the change of tack seems to be a response to investor criticism over the lack of consensus on how to quantitatively assess the long-term financial impact of these factors on the creditworthiness of issuers.

Our research speaks to this frustration, with 71 percent of respondents agreeing that among the biggest challenges in making sustainability-oriented investments is the confusion and lack of clarity on standards. Then there is the additional financial burden of putting such strategies into action—57 percent report excessive cost as a major challenge they are managing in their attempts to invest more responsibly.

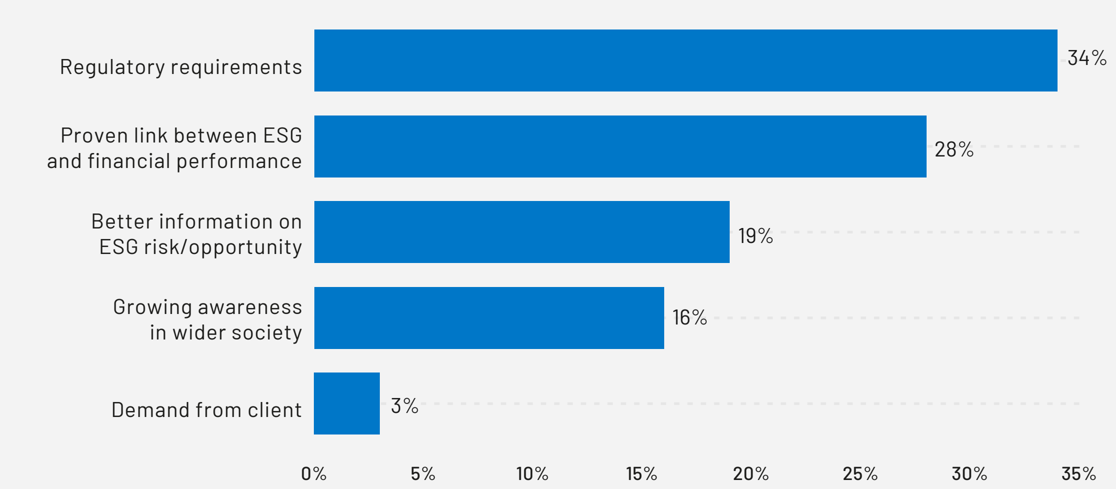
What are your organization's biggest challenges in making ESG-oriented investments? (Select top three and rank 1-3 where 1 = most important.)



When it comes to carrots versus sticks, it is the latter that would most compel buyers to consider sustainability matters more actively and widely. This stands to reason since investors are always conscious of adhering to rules, especially if they risk footing financial penalties for non-compliance. Just over a third of respondents (34 percent) tell us that regulatory requirements would push them to embrace ESG more fully. Even so, the carrot approach is still highly important, with 28 percent of survey participants saying a proven link between sustainability and financial performance would prompt more action on their part.

This link is a topic of ongoing research and debate. While some studies have found a positive correlation between sustainability practices and the outperformance of companies compared with those with weaker credentials in the long run, other research has shown no discernible impact. The relationship depends on various factors, including industry, geographic region, time horizons and the

What would push your organization to have a wider consideration of ESG? (Select one.)



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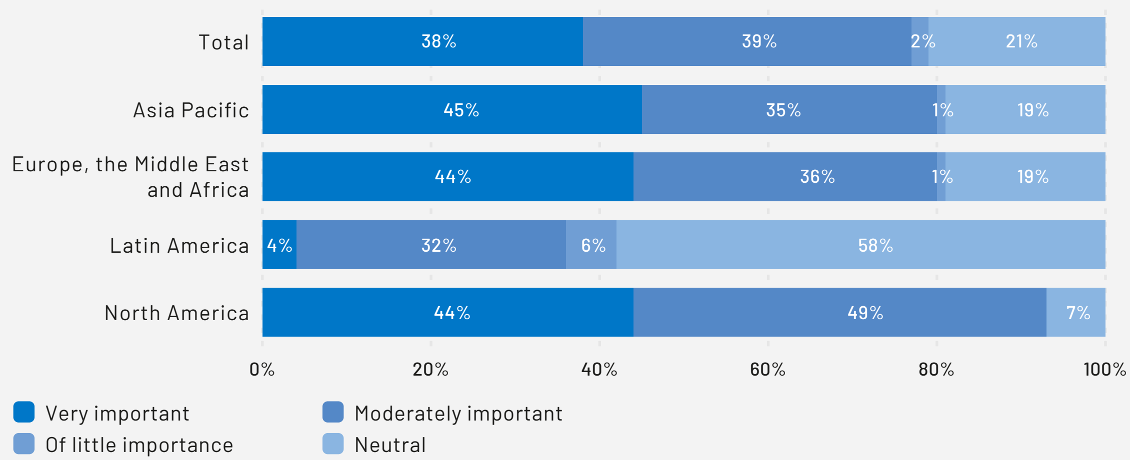
specific sustainability factors considered. Analyzing how exactly these initiatives can improve financial performance, McKinsey has found gains in operational efficiency, asset optimization and revenue growth. Furthermore, the consultancy argues that ESG can contribute to risk mitigation and the development of a favorable public perception, enhancing overall corporate valuation and attracting talent, thereby contributing to long-term sustainable growth.

When looking at a new target, how important is the diversity balance within the organization?



Other research suggests that diversity specifically is similarly value-additive. McKinsey has been attempting to quantify the issue for nearly 10 years and most recently found in 2023 that companies with the most gender-diverse boards have a 27 percent higher probability of financial outperformance compared to those with the least gender diversity. Likewise, firms with boards in the top quartile of ethnic diversity demonstrate a 13 percent greater likelihood of financial outperformance than those in the bottom quartile.

These findings indicate that investors can directly benefit from diversity and should view the issue less as a virtue signal and more as a practical means to improving returns.

It is an area in which respondents to our study are acutely focused. Overall, 77 percent say diversity balance is important when assessing a target organization, with 38 percent stressing this is very important. In APAC, acquirers are even more adamant, with 45 percent saying diversity is very important when sizing up a deal target.

"Diversity at the board level is one of our expectations. Stakeholder expectations are changing fast when it comes to board composition and diversity levels overall. We review this factor when deciding on investments," says the CEO of a U.S. corporate.

The Road Ahead for M&A in 2024

Despite talk of rate cuts on the horizon, dealmakers believe financing conditions will continue to prove a challenge to M&A in 2024.

The prevailing view heading into the new year among survey respondents was that financing conditions would ease gradually in 2024. Bond markets were beginning to price in the probability of forthcoming rate cuts from the Fed, but a surprise blip higher in the Consumer Price Index (CPI) reading in the U.S. for December, released in January, renewed caution. The CPI came in 3.4 percent year over year compared with 3.1 percent a month prior.

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> In the U.S., there is little indication that rates will move higher, and other central banks generally align their policies with the Fed's direction.

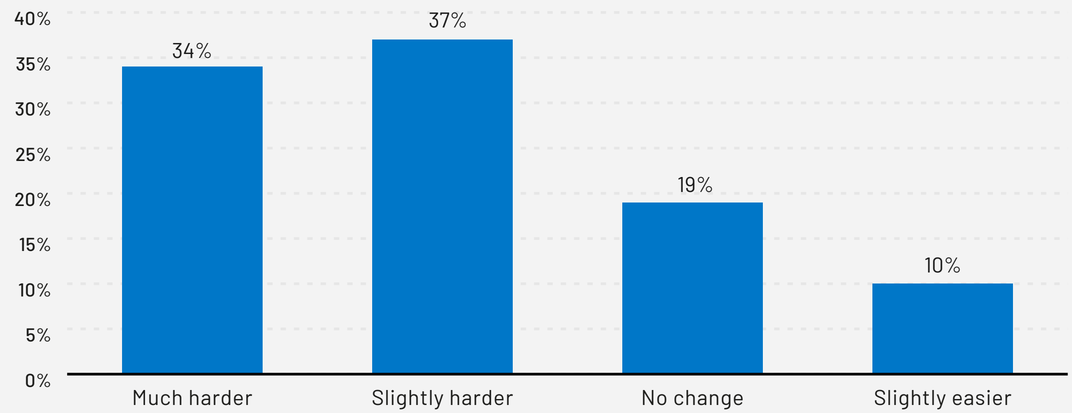
In the U.S., there is little indication that rates will move higher, and other central banks generally align their policies with the Fed's direction. But higher for longer than is comfortable is a real possibility. And if capital markets investors grow more cautious and move their money toward less volatile investments, this will likely further tighten conditions.

A sizable 71 percent majority of respondents in our research expect financing conditions to get harder in the next 12 months, though this is a notable decline from the 81 percent who said they expected the same a year ago.

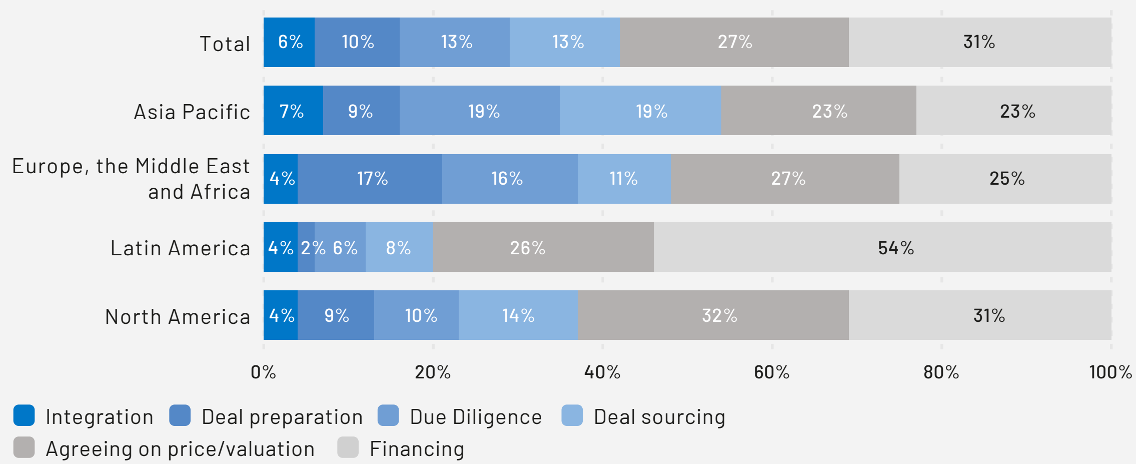
Financing is also expected to be the most difficult part of the M&A process for 31 percent of respondents globally and as much as 54 percent of those in Latin America. Buyers in North America are more concerned by the bid-ask spread on transactions than obtaining financing, with 32 percent in the region flagging this as a challenge for M&A versus the global average of 27 percent.

The gap between buyer and seller expectations has been a significant stumbling block to higher deal volumes in the past year. Acquirers swiftly reset their valuation benchmarks downward, comparing to recent levels when market conditions soften, whereas sellers are often slower to come around to the new reality. More recently, sellers' valuation expectations are slowly beginning to come back down to earth, which explains why investors are expecting deal activity to tick up this year. Economic growth being stronger than first anticipated a year ago, recession fears gradually fading and PE funds facing pressure to pick up their pace of deployment also help.

How do you expect financing conditions to change in the next 12 months compared to 2023?



Which part of the M&A process will be the most difficult in the next 12 months? (Select one.)



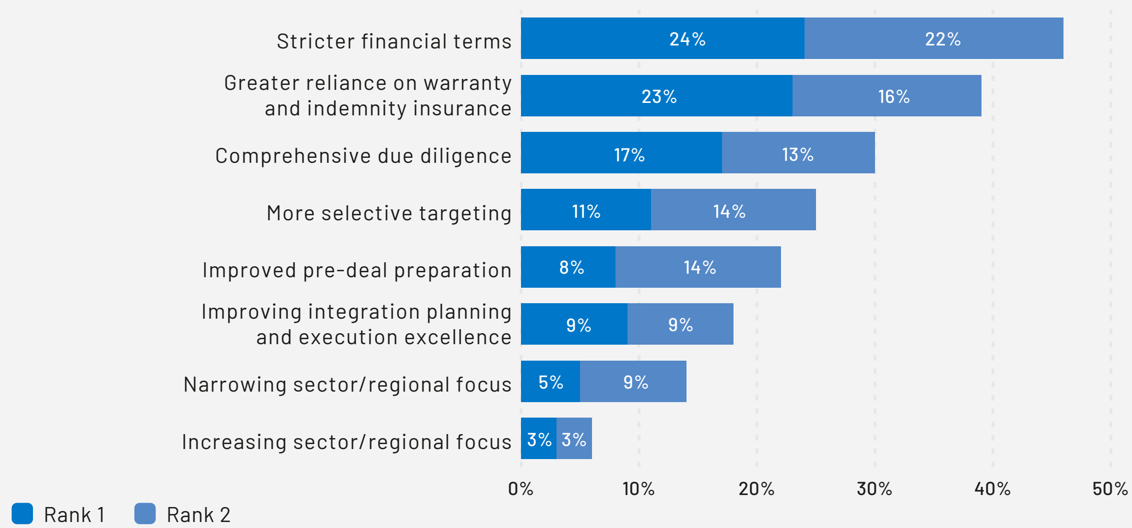
Downside protection

Earn-outs, vendor loan notes and other means of deferring purchase payments have become popular ways of helping to bridge the distance between buyers and sellers over the past two years.

These methods are expected to remain a key feature of deals this year. Just under half of respondents (46 percent) say that stricter financial terms will be one of their top-two risk mitigation strategies. Warranty and indemnity (W&I) insurance is also a favored strategy for 39 percent of respondents.

Traditionally a key feature of M&A transactions in the U.S., Europe, the U.K. and Australia, W&I insurance has been gaining traction in APAC in recent years. Although its usage in APAC has been lower at around 15 percent of deals, there's growing interest, with more insurers entering the market to meet rising demand. The head of strategy at a transportation company in Japan told us: "It's important for buyers to consider W&I insurance. It is increasing in use today

How will companies mitigate M&A risk in the next 12 months? (Select top two, where 1 = top choice.)



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Just under half of respondents (46 percent) say that stricter financial terms will be one of their top-two risk mitigation strategies. Warranty and indemnity (W&I) insurance is also a favored strategy for 39 percent of respondents.

because of the risks in markets. Sellers may not meet their warranty terms, and buyers need to be covered for any breach in the contract."

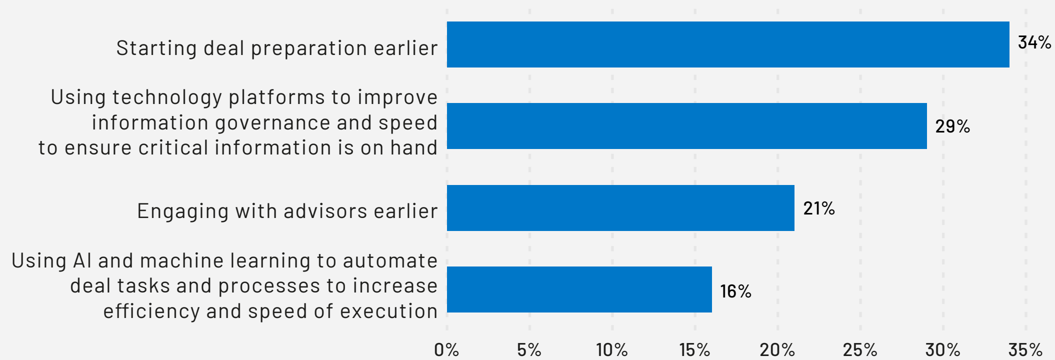
Prepping for success

Starting deal preparation earlier (34 percent) and using technology platforms to improve information governance and speed to ensure critical information is on hand (29 percent) are expected to help companies better execute M&A in the next 12 months.

Getting a head start on deal prep allows buyers to thoroughly assess potential targets, conduct forensic due diligence and address any issues that might arise during the transaction. This proactive approach can lead to better-informed decisions, a clearer understanding of the risks involved and a more streamlined negotiation process.

The role of technology including VDRs in this context is crucial. As secure online platforms that facilitate the storage, sharing and management of confidential documents,

Which of the following will be the most important to help companies better execute M&A in the next 12 months? (Select one.)



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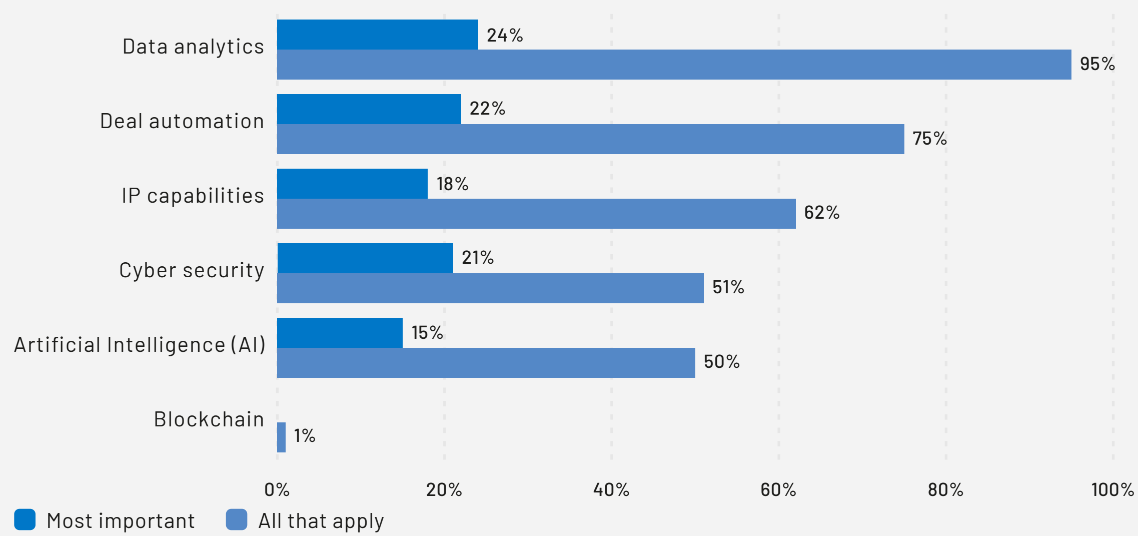
Starting deal preparation earlier (34 percent) and using technology platforms to improve information governance and speed to ensure critical information is on hand (29 percent) are expected to help companies better execute M&A in the next 12 months.

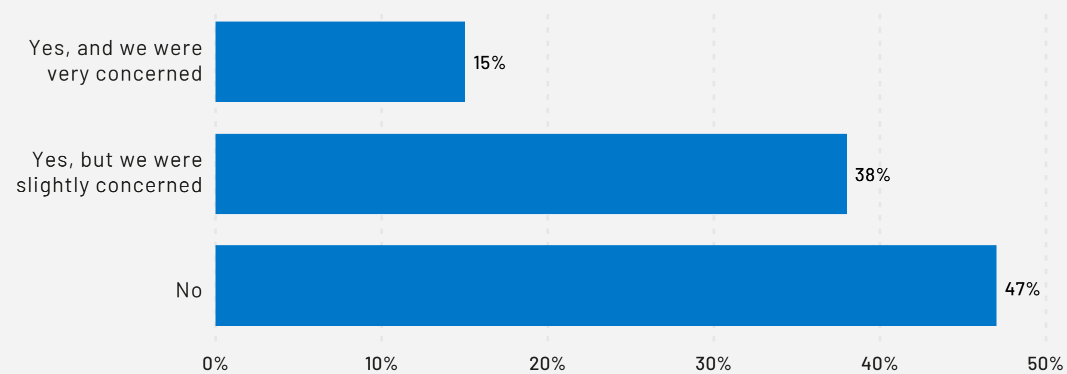
VDRs are indispensable tools for frictionless dealmaking. This is especially salient in the context of rising cybersecurity concerns. We find that 53 percent of respondents have experienced greater concerns surrounding cybersecurity during M&A deal processes over the past 12 months and 60 percent expect these concerns to increase in the coming year. Financial sponsors are even more cognizant of these risks, with 87 percent of PE firms seeing cyber concerns increasing in 2024.

In addition to enabling the efficient organization and management of large volumes of data via document indexing and tracking, VDRs provide a secure environment for storing sensitive information, protecting against unauthorized access and data breaches. This is critical when handling confidential and proprietary information in M&A transactions. By some estimates, most cyber incidents are the work of insiders, by way of either malicious attacks or user negligence. According to a report by Cybersecurity Insiders, a company that provides content marketing for security

What disruptive trends will most affect M&A processes in the next 12 months?



Have you experienced greater concerns surrounding security/cybersecurity during M&A deal processes over the past 12 months?

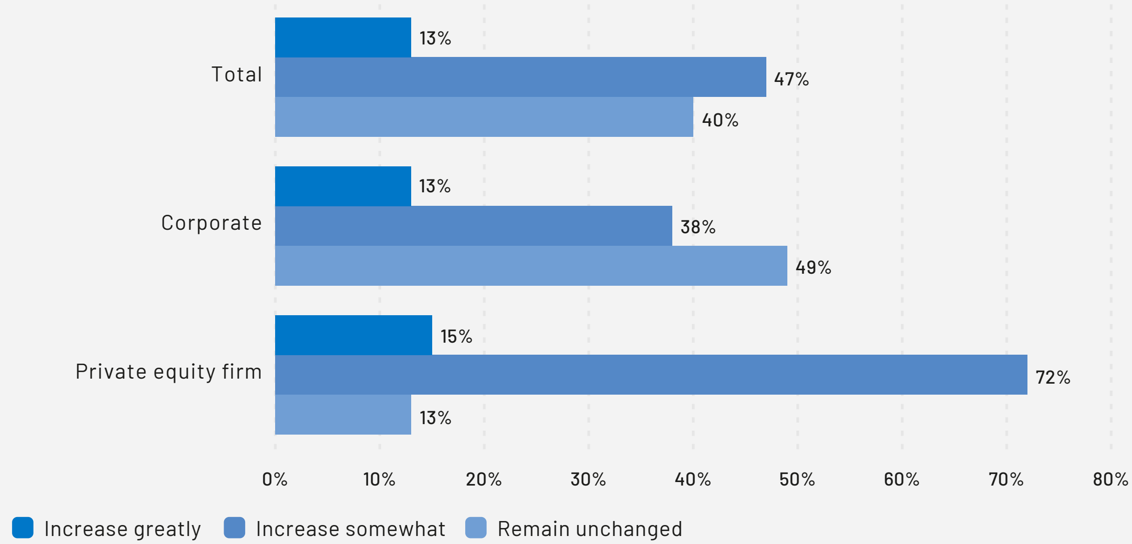


vendors and service providers, 74 percent of organizations consider themselves at least moderately vulnerable to insider threats. Deal parties need to always exercise vigilance and be highly selective when choosing a VDR provider. Value-destructive cyberattacks can occur at any time, and all necessary steps must be taken to avoid data leakage—including the use of secure VDRs—lest bad actors try to undermine a sale process.

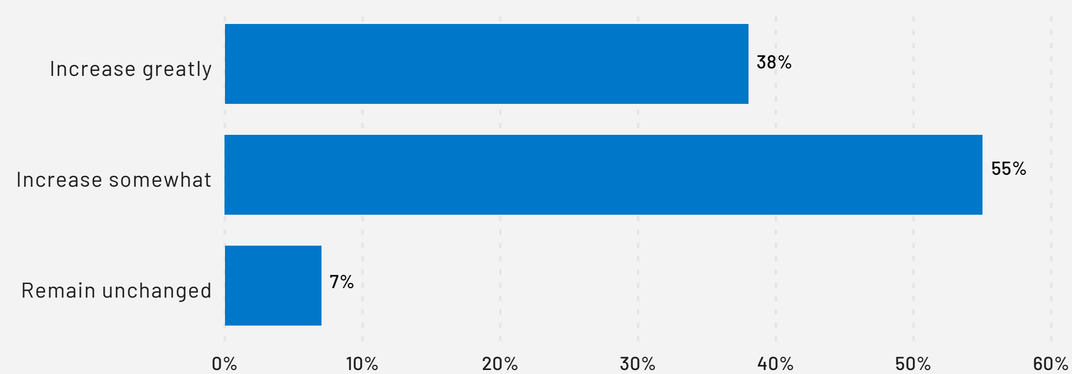
"We have ongoing concerns related to cybersecurity. I've seen sellers using digital solutions without contemplating the security risks and exposure to bad actors. These are not positive signs during dealmaking, and we expect strong data governance to be applied during the due diligence process to avoid any issues," says the managing director of a Swiss PE firm.

In addition to staple VDRs, technology continues to disrupt M&A processes for the better. Dealmakers are encouraged to embrace this change to maintain their competitive edge.

Do you expect concerns surrounding security/cybersecurity during M&A deal processes to increase over the coming 12 months?



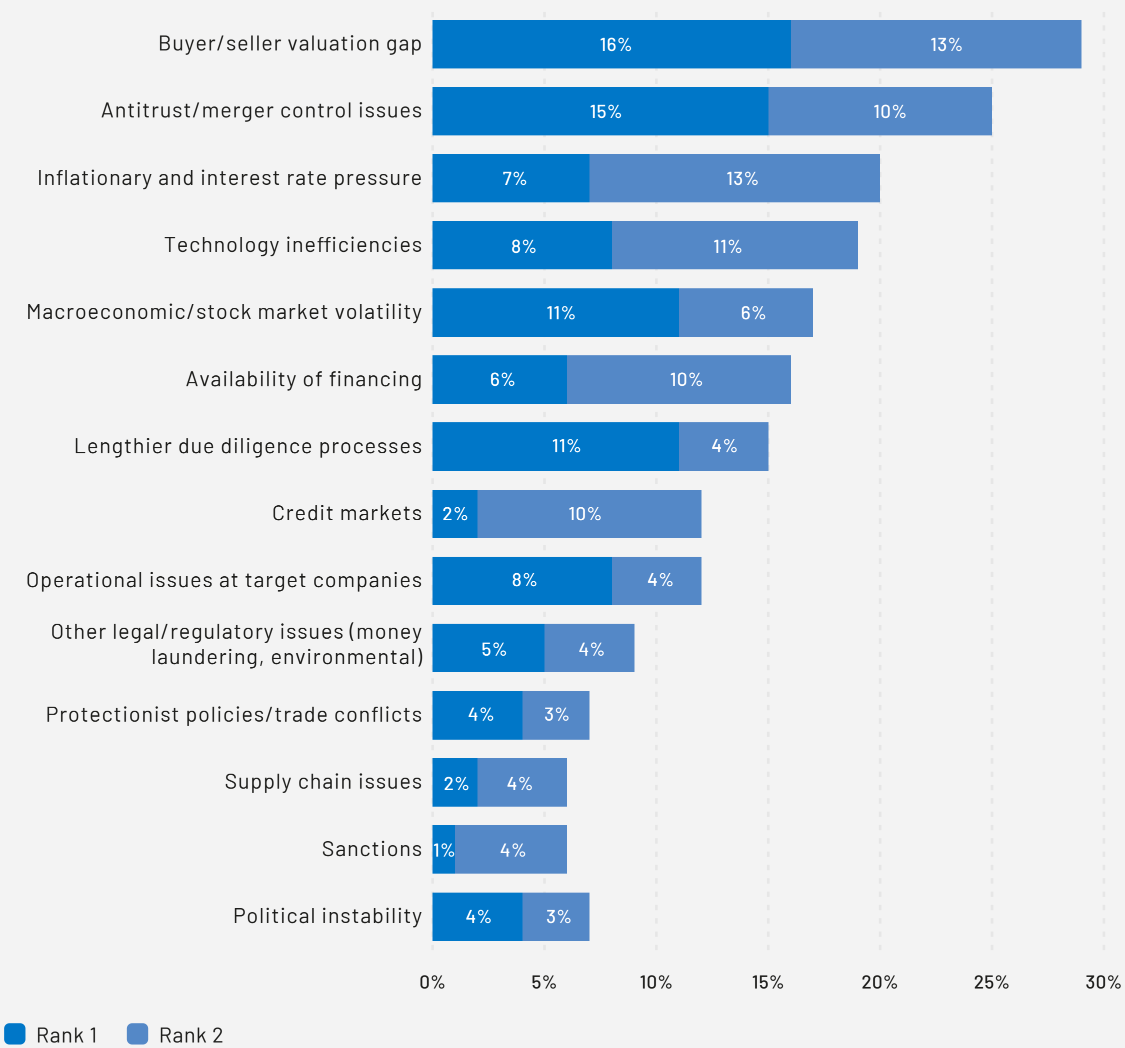
How do you expect the use of tools powered by AI during M&A deal processes to change over the next 12 months? (Select one.)



The two stand-out themes are data analytics and deal automation, which respectively received 95 percent and 75 percent of respondent votes for being the likeliest major disruptive trends to M&A processes over the next year.

Furthermore, 24 percent and 22 percent of dealmakers see these as the single biggest trends that will play out. These are interminable themes that depend on the emergent application of AI and so have many years left to unfold. Those at the forefront of the adoption curve are positioning themselves for a competitive advantage.

What will be the biggest challenges to completing a deal in the next 12 months? (Rank top two, where 1 = the biggest challenge.)



Spotlight on AI in M&A

AI is set to revolutionize the dealmaking process in the next 12 months and beyond, with contract drafting, due diligence and valuation all benefiting from its influence.

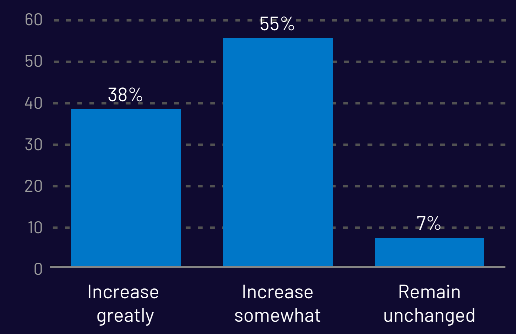
Dealmakers today are fusing AI and machine learning with human expertise to improve efficiency, expediting labor-intensive, high-volume document analysis. This in turn is increasing transparency and empowering acquirers to reach more deeply into companies to access the data necessary to underwrite risk more precisely.

A significant 93 percent of survey respondents anticipate an increase in the use of AI tools within the next year. This trend aligns with the broader digital transformation that businesses are undergoing, where AI is increasingly pivotal for enhancing decision-making and achieving operational efficiencies.

"The AI solutions available in the market today are fit-for-purpose and we can expect to start using these more extensively," says the head of M&A at a real estate company in Brazil. "In the coming years, these tools are bound to increase in sophistication as well."

AI's influence is particularly prominent in certain stages of the M&A process. For instance, contract drafting and legal research are seen as benefiting from AI by 56 percent of respondents, while 48 percent recognize AI's advantages in due diligence and risk assessment. Furthermore, 40 percent see the potential in AI for M&A valuation and deal structuring.

How do you expect the use of tools powered by AI during M&A deal processes to change over the next 12 months? (Select one)



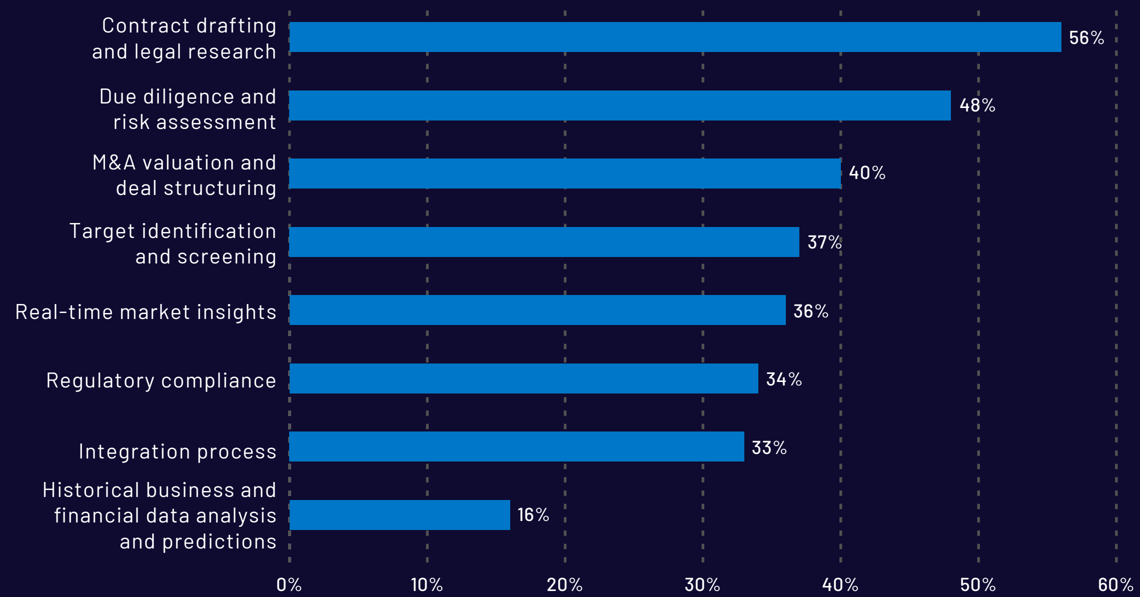
"Decision-makers rely on due diligence for negotiating the deal contract, so AI will be very useful in this regard," says the global vice president of M&A of an industrial company in

Saudi Arabia. "More accurate insights will be derived with the use of tools powered by AI, and this can really improve the quality of legal-work assessments."

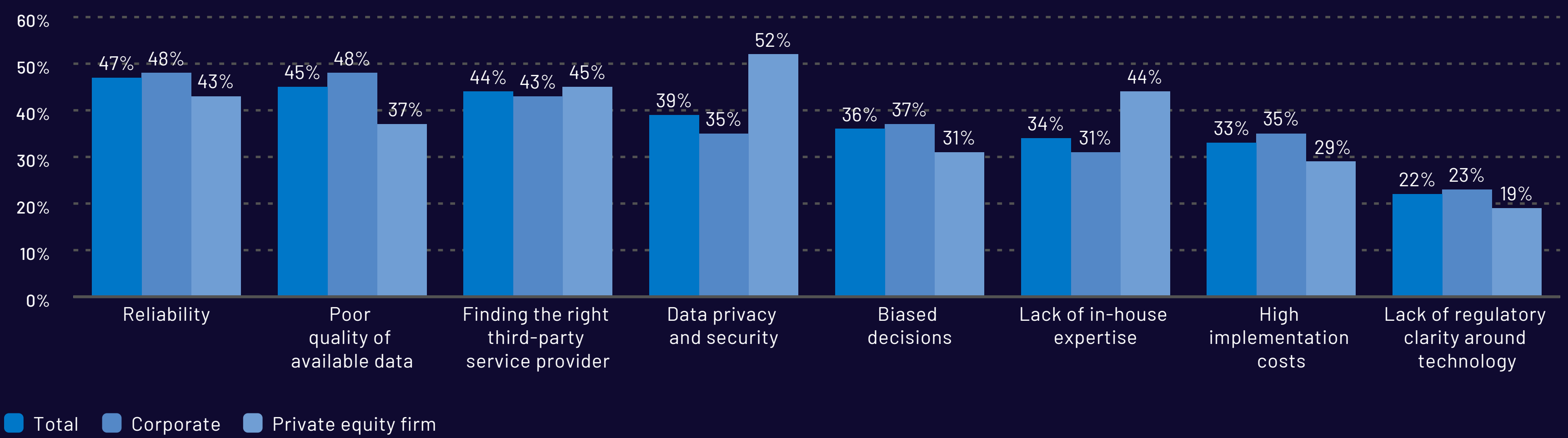
Garbage in, garbage out

The integration of AI, however, can present teething problems. For example, researchers from the Oxford Internet Institute recently stated that the training data used by popular large language models (LLMs) such as ChatGPT and Google's Bard are so unreliable that their use in scientific research should be restricted. As it applies to M&A, where accuracy is equally paramount, concerns about AI systems' reliability are prominent, being cited by 47 percent of respondents as among the top-three challenges. Relatedly, 45 percent raise concerns about the quality of available data that AI tools are being applied to — as the adage goes: garbage in, garbage out. And 44 percent highlight the simple challenge of sourcing suitable third-party service providers whose products meet the specific requirements of dealmakers as an equally significant hindrance.

What stages of the M&A deal process would most benefit by the use of tools powered by AI? (Select top three.)



What are the biggest challenges to the adoption of generative AI? (Select top three.)



PE firms in particular express concerns over data privacy and security; 52 percent of these respondents cite this among their top-three challenges. When the buy-side's deal team accesses highly sensitive documents during due diligence, it is essential that all processes and workflows, including those augmented by AI, adhere to stringent security measures. The integration of AI with VDRs, for example, must be executed with a focus on access permissions, data security, and maintaining privacy and confidentiality. This preserves the integrity of the deal and trust between all stakeholders in the transaction.

PE respondents are also much more commonly concerned by their lack of in-house experience and expertise to make AI work for them. Aside from the industry's very largest institutions, PE firms are typically lean teams that are far smaller than corporates, so it stands to reason that sponsors may have a relative lack of internal resources in this area. Our research shows that this is a challenge for 44 percent of PE firms compared with 31 percent of corporates, which serves as a timely call to action for fund managers to deepen their talent benches.

Key Takeaways

While treading carefully amid market volatility, dealmakers are keen to forge ahead with ambitious M&A plans, spurred on by expected interest rate cuts.

Investors are slightly less confident about the short-term M&A outlook than they were a year ago. This is understandable given the rollercoaster ride that capital markets have been on and the effect that higher costs of capital have had on the availability and expense of deal financing. While M&A levels are off their highs, buyers are expressing strong conviction in their own deal intentions for 2024. Here are five takeaways for dealmakers to consider as they scan the market for opportunities:

Transformation by acquisition

Inflation rates are gradually receding and the potential for transformative growth by acquisition is coming into sharper focus. Strategics have benefited from hoarding in the high-rate environment and by mid-2023, U.S. corporate cash levels were sitting at an all-time high of USD 4.15 trillion, nearly 50 percent above their pre-pandemic baseline. Should monetary policy loosen, corporates will likely be ready to spend in a big way.

The great AI catalyst

If there is one stimulus for transformative, growth-oriented deals, it is AI. Companies with limited in-house development expertise are either forming strategic partnerships with AI vendors or, in some cases, making acquisitions to scale these capabilities. The latter may grow increasingly evident in industries where AI can impact operations significantly, such as Healthcare, Finance, Retail and Manufacturing. By acquiring firms with established technologies, companies will be able to rapidly adopt advanced analytics, machine learning and automation, thereby accelerating their digital transformation.

The clock is ticking on fund deployment

Slower dealmaking from financial sponsors, driven by tighter credit conditions, has intensified the need for PE firms to seek investment opportunities in 2024. The industry is now feeling a sense of urgency. Accumulated dry powder of USD 2.49 trillion is burning a hole in funds' pockets and pressure to deploy these reserves is building. This should result in sponsors playing a more active role this year, if only by increasing their deal volume after a quieter period.

Choose your vendors wisely

Cyber threats are a perennial and growing concern. Dealmakers would do well to be judicious in their choice of technology vendors. Utilizing VDRs that make security a core feature is a must, as this will significantly mitigate the risk of data leaks. It is equally important to select vendors whose products can be integrated seamlessly with advanced data analytics and automation, which are becoming a more common feature of due diligence as buyers seek a deeper, more comprehensive view of deal targets.

Dialing out the noise on sustainability

ESG has become heavily politicized in the U.S. over the past year. Dealmakers, though, are evidently still focused on ESG initiatives, and our research indicates that this will continue into the future, particularly as sustainability regulations mature around the world. Corporates and sponsors should also avoid inadvertent greenwashing and empty virtue signaling by focusing on strategies and practical measures that will guarantee the long-term viability of their businesses. Transparency is the order of the day.

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