

2024 M&A OUTLOOK

 **ANSARADA**

COVER IMAGE

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Q&A with
15 top
Global M&A
Dealmakers

A series of seven vertical lines of varying lengths, starting from the bottom of the text and extending upwards, set against the green background.

“In 2023, despite the challenges of economic volatility, geopolitical tensions, and a heightened focus on sustainability, dealmakers who adeptly navigated these complexities found mergers and acquisitions (M&A) to be an invaluable path for growth and strategic realignment for their clients”

Soft GDP projections, the anticipation of higher-for-longer interest rates, and a challenging financing environment caused big-ticket, transformational M&A to vanish almost entirely.

And yet, for those dealmakers able to navigate these troubled waters, M&A continued to present an invaluable path to growth and a means to realign businesses' strategies with changed market conditions. One company's divestment of a non-core asset is another's opportune bolt-on acquisition or diversification play.

With inflation rates falling and central banks beginning to consider the loosening of monetary policy, a slight revival in M&A deal volumes can be expected in 2024. Although, average deal values are unlikely to reach the heights achieved during the immediate post-pandemic era.

As long as market conditions remain somewhat fraught, creative deal structures will continue to appeal as Dealmakers look to bridge valuations gaps between buyers and sellers. Alternative funding structures and minority investments have come to the fore, and historically popular mechanisms such as earnouts are again prevalent.

Activity on the Ansarada Deal platform shows Dealmakers are taking more care than ever in their due diligence processes. More resources are being dedicated to deals, reflecting not only the complex financial environment and poor sentiment, but also an increasingly strict regulatory environment. ESG analysis and reporting are no longer a nice-to-have, but essential as part of the due diligence process with corporates seeking greater transparency and the confidence to fulfill their ESG disclosure and accounting obligations. It has also become apparent that rampant digitalization and cyber security incidents has highlighted the need for Dealmakers to prioritise cyber security from their technology providers.

Dealmakers clearly have a lot to think about, and preparations are underway to capitalize on the coming revival in M&A and to make the most of the lessons learned over the last couple of years. Against this backdrop, we turn to the experts for their outlook on dealmaking today and achieving a sense of order in the year to come.



Justin Smith

Chief Revenue and Marketing Officer
Ansarada

Four key takeaways for dealmaking in 2024

For dealmakers and industry at large, conducting M&A over the last 12 months – if not the entire post-pandemic period — has, in many respects, become an exercise in advanced risk management.

Amid ongoing conflicts, geopolitical strife between the world's two largest economies, supply-chain disruption, persistently high levels of inflation, and rampant digital disruption, few periods in recent history have presented such an unsettling convergence of risk factors.

Some would-be dealmakers entered into this period of dislocation in a better position than others. Larger, well-capitalized organizations that are less dependent on cheap financing or can otherwise weather the storm of higher interest rates can count themselves among the fortunate minority in that regard. But for most, tighter financing conditions and market uncertainty have stood in the way of larger M&A opportunities.

The question, then, is when the macro picture might begin to brighten. According to most economic growth forecasts, 2024 will be the first of a pair of bridge years marking the world economy's return to more consistent growth. Recession will likely be avoided, inflation will continue to decline, and rate cuts will be debated. For the time being, we present here a few key takeaways that dealmakers might be advised to keep in mind as they draw up their M&A strategies for the year to come:

01

Geopolitics and political uncertainty

Between the effects of the pandemic, Russia's full-scale invasion of Ukraine and the more recent conflict between Hamas and Israel, the last few years have made clear just how quickly circumstances can change. In these conditions, having a firmer grasp over what a business can control is more crucial than ever before, be that mitigating against supply-chain risks or anticipating political upheaval. In 2024, major elections will be held in the US, India, the European Union and, in all likelihood, the UK. There is plenty of room for further change over the next 12 months.

02

Watch the watchers

After being wrong-footed by surging prices in 2022, central banks have enacted strict monetary policy to curtail inflation. While considerable progress has been made over the last 12 months, there is still more to do, and central bankers refuse to become complacent in their forward guidance. European Central Bank President Christine Lagarde said in November that the bank will not begin to consider cutting rates for at least “the next couple of quarters”. Jay Powell has said the Federal Reserve “will not hesitate” to raise rates again if necessary. Greater clarity is welcome, but for the next 12 months, dealmakers would do well to hang on central bankers' words.

03

Supercharging due diligence

Macroeconomic upheaval, ESG's climb up the corporate agenda and stricter antitrust regulation have all contributed to the increase in resources having to be dedicated to due diligence. High-quality due diligence begins with building up a rigorous target list and pursuing early engagement. One silver lining of the current downturn in dealmaking volumes is that more time can be spent examining a favored target's fundamentals and opening a dialogue. The more a team is able to glean about a business, the easier it becomes to de-risk a transaction in the first instance and, at deal's end, to get the most out of the post-merger integration process.

04

Sustainability as an M&A deal driver

Europe may have been in the vanguard for ESG-related regulation, but now each and every market is beginning to prioritize green and sustainability credentials in M&A. Proper ESG due diligence has moved beyond a question of optics – dealmakers increasingly appreciate that a strong ESG profile is a positive factor for business growth in the long term, particularly considering the ongoing influx of regulation in this field. Businesses would do well to get ahead of the curve on these developments and present themselves always as a sustainable, responsible operation.

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Anton Sahazizian

Managing Director & Global Head of M&A
Moelis & Company

Anton Sahazizian, managing director and global head of M&A at global independent investment bank Moelis & Company, discusses how dealmakers are navigating a sea of uncertainty

Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect a turnaround in M&A?

While the timing of an M&A turnaround is tough to predict on a monthly or quarterly basis, we have seen signs of recovery in the US over the last quarter or two. Buyers and sellers are still apart in terms of value expectations, but the gap is starting to narrow. One reason for this is that for many companies, earnings are still strong, a trend that is helping to achieve an acceptable valuation for both sides.

Additionally, dealmakers' desire to transact is pushing them to get comfortable with certain valuations. A buyer will pay up, or a seller might take a discount. For strategic buyers, there is a real scarcity of targets that hold true strategic value. This means they might just take the plunge when they find the right target that is actionable.

It is hard to predict when we are going to see the confluence of these factors produce more meaningful M&A activity. However, I can say that there is certainly a backlog of deals and real discussions taking place between buyers and sellers. There is real momentum, and in my view, we are going to see a turnaround sooner rather than later.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

In my opinion, it is not the case that PE firms are reluctant to carry out big-ticket transactions. They are very motivated both to buy and deploy new capital as well as to sell and return capital to LPs.

The issue is that they are not motivated to transact at uncomfortable valuations, and the fact is that the cost of capital has increased over the past 12-18 months. Financing is there, but it just costs more. We are seeing strong motivation among PE firms to make larger deals – it is just a case of finding valuations that make sense in light of the current financing environment.

In the dealmaking world, we will start to see meaningful debt maturities of PE structures in 2024 and 2025. When this happens, important decisions must be made about whether to transact via M&A or refinance the debt. In many cases, I believe PE investors will choose to transact. This should translate into a meaningful uptick in M&A.

How much more creative are dealmakers having to be, in terms of alternative deal structures, to bridge valuation gaps and get transactions over the line?

Designing M&A processes requires real thought versus just going broad in a standard two-stage auction. In the current deal environment, a bit of experience goes a long way. Certain deal structures – such as hybrid or junior capital – can help bridge the gap in valuation expectations between buyers and sellers.

We have increasingly been looking at earnouts, seeing minority transactions where, for example, a new sponsor comes in for 49% but retains the existing capital structure. This is also a time when many mergers of equals have come to the fore, as relative valuation is often easier than absolute valuation matches. If there is a meaningful prize in terms of synergies or strategic value, then a merger of equals can make a lot of sense.

Are dealmakers dedicating more resources to due diligence? What steps are they taking to smooth this potentially onerous process?

Dealmakers are transacting in a sea of uncertainty. In this environment, we are seeing dealmakers increasingly rely on history and relationships. Boards and investment committees are putting more and more weight on interactions with targets over time, where engagement is early and often. Having a well-developed target list becomes more important, because when the time comes you are immediately ready to move into action.

This approach makes an otherwise lengthy and onerous due diligence process become more focused and targeted. It also helps mitigate risk, allowing the buyer to become more comfortable with a valuation once they have had time to consider a particular target.

When do you expect financing conditions to loosen? Can dealmakers look forward to a less tight market in the near term?

If you can get buyers and sellers aligned on value, I believe the financing is there. Private lenders have grown and, after a hiatus, banks are starting to compete with them again. So rather than talking in terms of tight or loose, the issue is much more around cost – the cost of financing is simply higher than it was a year ago. The barrier to deals, therefore, is more about finding deals where buyers and sellers are aligned in value terms, rather than sourcing financing.

Expense is relative. I do think that dealmakers need to become comfortable with the cost of financing if they really want to carry out transactions. It is a case of shifting expectations.



Ariel Deckelbaum

Partner
Ropes & Gray



Michael Littenberg

Partner
Ropes & Gray

Ariel Deckelbaum and Michael Littenberg, partners in the New York office of law firm Ropes & Gray, discuss how PE firms are honing their approach to deal opportunities and how a wave of ESG regulation is impacting M&A

Global M&A activity in 2023 largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see a turnaround in M&A activity?

Deckelbaum: While activity was indeed down at the beginning of 2023, we’ve seen a gradual pick-up in activity through H2. And even though the overall value of deals does appear to have declined, the number of transactions, in terms of their market percentage, is rising.

I believe this trend demonstrates a few things. First, it shows that dealmakers have worked out how to proceed with transactions despite ongoing geopolitical and economic challenges. There are some opportunistic deals in high-growth sectors – artificial intelligence, life sciences and healthcare, for example. We are seeing dealmakers have an easier time bridging valuation gaps in these sectors compared to the rest of the industry.

Taking a broader view, and looking at the market as a whole, the uptick in M&A towards the end of 2023 highlights a pent-up demand for M&A, both among private equity (PE) and strategic buyers.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

Deckelbaum: My expectation is that PE activity will rise. In response to the challenging financing environment, PE firms need to take a strong and hard look at acquisition targets to make sure that financing terms make sense, that they can be sustained over time, and that there is sufficient growth to be able to support the leverage.

The PE model has certainly been tested in a high interest rate environment. In response, PE firms are taking a refocused approach to understanding deal opportunities and how they can execute them in the current market.

While there are fewer big-ticket deals taking place – certainly those in the double-digit billions – appetite for transactions remains. There is a large amount of dry powder to be deployed, and the hope that interest rates are stabilizing will build market confidence, although the Federal Reserve has been unwilling to give reassurances around this.

Some of our clients are choosing to delay deals into the beginning of 2024 in the hope of capturing lower interest rates. We will need to see how this plays out, but it highlights current thinking among PE firms. However, appetite for deals remains, and I do not think that ups and downs in interest rates are meaningful enough to dissuade a PE firm from pursuing a transaction that is otherwise compelling.

Do you expect greater scrutiny or new regulation regarding ESG globally or in your jurisdiction? How will this affect dealmaking?

Littenberg: We are seeing an increase in buyers, both strategic and PE, taking ESG factors into account in M&A transactions. It is almost universal now in large and middle-market transactions. As a firm, we have carried out approximately 200 ESG reviews in connection with M&A transactions this year, both for strategic and PE acquirers. That is an increase year-on-year. This trend is being driven partly by a realization that ESG factors can have a material impact on investment decisions, since they can be relevant to the ongoing financial performance of a business. How buyers take ESG into account is dependent on the ESG factors relevant to a transaction.

An important driver of the focus on ESG is increasing regulation. For example, in the European Union (EU), companies are preparing for compliance with the new Corporate Sustainability Reporting Directive (CSRD). The new EU Carbon Border Adjustment Mechanism (CBAM) is also influencing investment decisions and capital allocation. There are a whole range of regulatory considerations that didn’t exist 18 months or two years ago, which now need to be taken into account in the M&A process.

In which regions do you expect to see the biggest leap forward in terms of ESG scrutiny in 2024?

Littenberg: The two regions experiencing the most regulatory change are Europe and North America. Of course, we are seeing new ESG regulation in other parts of the world, but not at the same pace.

In particular, many ESG-related regulations have either recently taken effect or are pending in the EU. I already mentioned the CSRD and CBAM. In addition, the Corporate Sustainability Due Diligence Directive (CSDDD) is expected to be adopted as soon as H1 2024. CSDDD would require enhanced human rights due diligence, including in parts of the business value chain.

The EU is also expected to adopt a regulation banning imports into the EU produced with forced labor. New deforestation due diligence requirements take effect at the end of 2024. All this while the EU continues to wrangle with potential changes to the Sustainable Finance Disclosure Regulation, which concerns the financial services industry, and the continued rollout of the EU green deal more broadly. There also are new ESG-related regulatory requirements specific to Germany, Norway and Switzerland.

There is plenty of new ESG regulation for dealmakers to be focused on in the US as well. The 2022 Inflation Reduction Act is an increasing factor in dealmaking in some sectors, and California recently adopted three pieces of climate disclosure legislation. The Securities and Exchange Commission is also expected to adopt its climate risk disclosure rules, probably in early 2024. Forced labor is an increasing focus of US Customs and Border Protection, in particular relating to China.

The evolving ESG regulatory environment will continue to increase in importance in M&A diligence and risk and opportunity assessment.



Fredrik vom Hofe

Founder & CEO
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several international software companies

Fredrik vom Hofe, founder and CEO of private equity firm Shoreside Equity Partners, discusses mounting competition for high-quality assets and the prioritization of due diligence

Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect a turnaround in M&A?

This is the question everybody is asking themselves. In my opinion, I don't think we're going to see a sudden turnaround. M&A dealmakers are operating in a more normalized market compared to the remarkably strong activity that lasted from 2017 to early 2022. Dealmakers need to learn to operate in this new environment, because there doesn't appear to be a specific event on the horizon that will cause a turnaround in the market.

Looking at the North American technology market specifically, we are seeing a positive trend in terms of the number of deals taking place. However, activity is not comparable to the record number of deals witnessed over recent years, and I don't think we will get back to that level of activity soon.

We are increasingly seeing owners of platform companies pursuing add-on M&A rather than large transformational deals. The same can be said for PE players, who are tending to focus on developing existing portfolio companies rather than acquiring new platform companies.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think is causing these challenges in the market?

PE companies have certainly filled up their funds, with significant capital to be invested in the technology sector. Some of this is being deployed through existing portfolio companies – a strategy that has increased due to the risk involved in buying a new portfolio company. We are definitely seeing a more risk-averse approach in the current market.

Due to the higher cost of capital, PE companies need to be more careful when sourcing deals. It is natural, therefore, that while they are actively looking for assets, the number of deals actually taking place is much lower. Buyers need to be very, very sure that they can make a good return on their investment. As such, they are following a high-quality rather than high-volume investment strategy.

PE firms need to buy high-quality assets in order to achieve a healthy risk profile in their portfolio – yet there are fewer in the market, causing a competitive deal environment. While it is certainly a challenging environment for PE, high-quality, skilled companies will win high-quality assets.

Of course, valuations are lower than they were in 2020, 2021 and early 2022, producing a more demanding deal environment. Buying and selling is linked together for a PE company, and they need to exit some of their assets in order to return cash to their limited partners and generate a good return. Exiting has become more challenging in the current climate, and PE companies will be hoping the IPO market opens up, but that does not seem to happen anytime soon.

Do you expect the drop in valuations to continue? If so, has this led to a mismatch in price expectations between buyers and sellers?

Valuations in the tech sector have dropped significantly since their peak in early 2022 due to significantly higher interest rates. Valuations have also been impacted by the macroeconomic environment: high inflation rates and also political unrest across the globe. But I would say we are seeing a normalization of valuations, rather than a shock in the market.

High-quality assets are still delivering attractive valuations, yet the spread is much bigger. This means that low-quality assets have no chance of achieving a high valuation just because they are in an attractive sector such as technology – they need to prove their quality.

There is a mismatch between expectations in the market, not just between sellers and buyers, but also between the public and private markets. Owners of private companies have not yet fully adjusted their valuation expectations in line with comparable public companies' valuations.

Are dealmakers dedicating more resources to due diligence to make sure potential deals get off on the right foot?

Due diligence is very much back in fashion. While deals need to happen fast, what is really important is quality due diligence. It is being taken much more seriously now, and I don't see any buyers completing a deal without having done their full due diligence. I think this is a very sound approach.

There are some areas that are given more attention in today's market, with additional resources being allocated to due diligence processes. Cybersecurity has risen up the agenda, with buyers allocating more resources in this area, for example checking that the seller has thorough security procedures and processes.

More attention is also being paid to ESG factors. Within the technology sector this is less about the 'E', as software technologies rarely have a serious negative impact on the environment, but we are seeing much more effort put into the 'S' and the 'G'. There are many companies that are relatively inexperienced in carrying out this type of due diligence.

Ongoing developments in merger control and antitrust legislation are also impacting due diligence processes. Dealmakers must take time to understand what is needed in order to be compliant with new legislation related to merger control and antitrust. In some cases, dealmakers are choosing to split the signing and closing of a deal because they need to finalize their due diligence in this area. It is no longer an area where they are comfortable taking a risk.

Jan Olsson

CEO Nordics
Deutsche Bank

Jan Olsson, CEO Nordics of financial services group Deutsche Bank, discusses how the market is reopening to investment grade companies and how dealmakers can contend with increasingly strict antitrust regulation



Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022. When might we expect to see a turnaround in M&A?

We are starting to see an increase in activity in terms of pitching for business, and my expectation is that we will see a turnaround in M&A activity over the next year. I don't think 2024 will be a record year for dealmaking, but we will start to see a gradual pick-up in the deals taking place. We have seen a few IPOs over the past year, including Arm listing on the Nasdaq, and I expect to see more activity in this space. It is a subtle shift, but it is definitely a positive trend compared to H1 2023. We are starting to see some light at the end of the tunnel.

Inflation has fallen from its record levels but remains persistent in many economies, with central banks pursuing aggressive monetary tightening in response. How has this affected M&A, and when do you expect monetary policy to begin to loosen?

In a higher interest rate environment, there has been a slight shift in the overall market towards more traditional ways of financing, with a greater focus on cashflow rather than revenue multiples.

Having said that, large corporates have been able to find finance, particularly through activity in the bond market.

As a result, we are seeing a shift in favor of investment grade companies – the leading companies on the European exchanges and some of the major private businesses – that are able to take advantage of the opportunities in the current market climate. But smaller-to-medium-size companies with modest leverage are finding it very difficult.

In terms of a recovery, I see the market opening up first to investment grade companies, then, slightly behind the curve, the leveraged and PE-owned companies will benefit. Yet higher interest rates will prevail. I believe rates will move downwards somewhat over 2024, but we will not see a return to the low interest rate environment of the past.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

The PE market has always been, and will always be, an important market for transactions as the motivation to acquire, restructure and sell businesses will always exist. In a higher interest rate environment, my view is that the business model has become slightly more challenging. Yet PE firms' abundance of dry powder means they will continue to look to acquire companies looking for a new owner.

Whenever we see a shift in the market it inevitably impacts pricing expectations between buyer and seller. Yet as maturity comes into the market and dealmakers adapt, this mismatch will start to disappear. Financial reality sets in and the two sides will meet. It is an ongoing psychological process that will gradually evolve.

Antitrust scrutiny has been a big topic of conversation of late. Has this had a notable impact on M&A? How do you expect this to develop in 2024?

We are living in a fast-moving world where the share price of a company can move substantially in a year – we are talking 30%, 40% or even 50%. Yet by the time antitrust due diligence has been completed, 12 months or even 18 months may have passed. A lot can happen in a year.

I believe there needs to be a mechanism put in place to cut down these time periods. Antitrust regulation is increasing and, looking forward, will only increase further. There will be more scrutiny on deals, and at a certain point we will need to start to think about a way to simplify and shorten regulatory approvals.

Do you expect greater scrutiny regarding ESG in the dealmaking process?

Definitely. It is another important aspect of compliance, and relatively new in the sense that as a trend it has only emerged over the past 10 years. ESG factors are an important ingredient when issuing bonds or equity – investors do not want to be part of a business that is not ESG compliant.

What I would say is that a lot of ESG projects are currently government-supported. If you read between the lines in recent quarterly reports, there have been a lot of write-offs in the energy sector and particularly in ESG-related projects. One reason for this failure is insufficient government funding.

I would like to see investors take a more positive view on ESG projects as they have done in the past. In my view, ESG projects need to be made viable in the private sector if they are to stand on their own merits in the future.

Jess Zhou

Director of Corporate Development and M&A
Boehringer Ingelheim

Jess Zhou, director of corporate development and M&A at pharmaceutical group Boehringer Ingelheim, discusses prospects for a recovery in Chinese dealmaking and resilience in the country's high-tech and renewables sectors

Global M&A activity in 2023 largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see a turnaround in M&A?

We are continuing to see a slowdown in M&A activity within the Chinese market, both in terms of value and volume. While market optimism increased following the loosening of pandemic-related travel restrictions in January, we have yet to see a material impact of these changes, with a lack of consumer confidence limiting both consumption and corporate investment.

A significant amount of market uncertainty makes it unclear when we might expect to see a turnaround in M&A activity. The Chinese government recently injected one trillion renminbi into the economy as part of its strategy to loosen monetary policy. It remains to be seen whether this amount is sufficient or if the economic toolkit alone is sufficient for confidence to return to the market.

My gut feeling is that we are unlikely to see a significant uptick in M&A during H1 2024. The market has been very soft for the past two to three years and will need time to recover. China is also in the turns of a transition from an industrial-driven economy to a more service-driven economy. The transition also takes time, and it requires room for trials and errors. Any additional physical and monetary policies to strengthen the economy will help, but a lot hinges on the geopolitical relationship between China and its external environment. The Chinese government is working very hard to strengthen international relationships and rebrand China’s global image. If it achieves this aim, I believe we should expect a pick-up in activity towards H2 2024.

What facets of due diligence, if any, are dealmakers increasingly prioritizing or emphasizing in transactions?

We are seeing an increased focus on compliance. When making purchases, dealmakers have to be very careful that their compliance standard can at least be remediated to an adequate level. Once two companies become one, they need to abide by one compliance standard. This is a major issue we are looking to solve in the due diligence phase.

Secondly, intellectual property (IP) and antitrust are increasingly important facets of due diligence. The Chinese government is making a concerted effort to protect IP, and dealmakers need to understand how they can protect the IP of a business in the current market climate.

This of course leads us to the importance of antitrust. Take the pharmaceutical industry, for example, where innovation and research surrounding breakthrough therapies is ramping up. Within this environment, it is critical to engage antitrust lawyers early in the deal process – even before a term sheet or non-binding offer is signed – to assess the seemingly competitive products and relevant therapeutic areas. Dealmakers then need to make the decision as to what level of antitrust or non-compete clause they include in the definitive agreement.

Are there any sectors/subsectors that you think will demonstrate notable resilience in terms of M&A between now and the end of 2024?

While overall M&A activity is trending downwards, we are seeing certain sectors display relatively positive activity. Healthcare has been notably resilient, with China’s aging population and government policies focusing on upgrading healthcare services driving deals. The e-commerce sector has also stood up well to the wider economic slowdown. While online/mobile retailing are not growing at the same rate as in the past, a large consumer base and the global shift to online consumption means that they are weathering the storm. We are also seeing an increase in activity in the mobile gaming sector, particularly mini games.

In response to the geopolitical environment and China’s focus on strengthening the “inner economic circulation”, the Chinese government has launched a range of policies aimed to encourage domestic companies to develop “hard and core” technology. We are seeing a significant amount of fundraising in interesting areas such as the space economy.

Renewable energy assets are also attracting dealmaker attention. Building the green economy is top of the government agenda, and as such the industry is set for increased investment over the coming year.

Do you expect greater levels of protectionism and FDI scrutiny globally in 2024? How should dealmakers prepare for potentially more complex transactions?

Certain overseas targets are closed to Chinese investment in the current climate. It is difficult to secure outbound deals in high-tech segments such as the chip sector, space economy and real AI for example. I expect these areas to remain quiet for outbound/cross-border M&A over the medium term.

From a dealmaking perspective, what we value the most is human interaction and building trust between parties. I think we need to be optimistic. The process of carrying out M&A tends to be resilient across different environments, because the need to either defend your current position or to grow in order to survive is not going away.

In terms of preparing for increasingly complex transactions, dealmakers need to become aware of the policies and regulatory requirements, including cross-border data security, and how these impact deals. Evolving geopolitical relationships between buyer and seller will need to be watched carefully.

And finally, it is becoming increasingly important for dealmakers to build their knowledge across key sectors. Deals in non-traditional areas such as high-tech industries are placing new demands on dealmakers. You cannot be an expert on day one, but if you try to learn, and keep on learning, at least you can catch up.



Jonathan Aiken, head of London and partner at investment banking advisor BDA Partners, discusses how a challenging economic environment is spurring the uptake of creative deal structures

Jonathan Aiken

Head of London & Partner
BDA Partners

Which sectors, if any, do you believe will move to more aggressive growth strategies in their M&A programs, as opposed to more defensive dealmaking?

Within the mid-market, where we operate, investors strive for profitability and cashflow stability. In today's complex investment environment, having high-revenue growth yet negative cashflow is completely out of vogue. Companies with a robust history of cashflow generation, for example the more resilient actors in the industrial and services sectors, have become good candidates for financing – or at least they don't raise questions within investment committees or with their lenders. What one might think of as 'traditional' sector areas are outperforming as a result. Another example is healthcare, where macro trends such as aging populations and evolving healthcare needs in a post-pandemic environment drive investment.

The European luxury market has witnessed strong growth over the past few years. In France, some of the listed flagship leaders have seen phenomenal share price growth. While valuations have recently plateaued, the market boom reflects strong spending patterns of ultra-high-net-worth individuals from different regions across the globe – notably China and East Asia.

Industries that have stronger cashflow and are more appealing to investors have been particularly resilient to the pressures within the global deal market. This is relevant to the mid-market, where M&A activity/volume has developed fairly well. It is at the higher end of the market where we have seen some multi-billion-dollar transactions constrained due to a lack of availability of capital.

What do you think will be the biggest potential risks or challenges that dealmakers will have to contend with in 2024?

If you speak to dealmakers, the broad consensus would be the impact of unforeseen events. The global dealmaking community has lived through significant upheaval and sustained inflation. The challenges we are facing are significant and require nimble responses to seize new opportunities. Most practitioners believe that being able to react quickly to developing situations is a fundamental survival mechanism.

On a micro level, it is worth sparing a thought for those managing their business through transactions, as often we hear of the difficulty in budgeting and forecasting while responding to supply-chain disruption. Forecasting uncertainty and responding to market changes take up a disproportionate amount of business leaders' time, and some do not have the necessary experience to build on. Some managers have not recently experienced significant inflation, for example, or needed to deploy price increases in their market – it is a novel experience for them. Even for leaders with 30 or 40 years of experience, the ability to respond and implement changes can be challenging.

This dynamic ties into the broader dealmaking flow, as business leaders face the realization that their typical, traditional five-year business plan will not work in a challenging environment. Some businesses even have trouble forecasting growth over the next 12 months. This inherent uncertainty in the market creates a divergence between buyer and seller expectations – just one reason why dealmakers are experiencing difficulty closing transactions.

In your experience, how much more creative are dealmakers having to be, in terms of alternative deal structures, to bridge valuation gaps and get transactions over the line?

The market has come off a period of red-hot dealmaking in which the seller exercised an enormous amount of power, both in terms of the timing and terms of the transaction. During this period, we saw the dissipation, or disappearance in some cases, of dealmaking mechanisms such as earnouts.

Now that dealmakers are operating in a much more uncertain environment, the balance of power has shifted, and some of these traditional mechanisms, including earnouts, are coming back to the fore to bridge the gap between buyer and seller expectations.

We are also seeing a change in tack in relation to seller strategy. Whereas even in late 2022 financial sponsors would have run a competitive, fast-paced auction process, through 2023 owners of assets quietly and discreetly tested the market. This takes the form of entering into very specific conversations, seeking validation regarding buyer appetite, and even considering a bilateral process. This cautious, selective approach is very different to what we have seen in previous years.

This period of relative quiet may present an interesting market environment for international buyers to consider deal opportunities. Many strategic buyers seeking cross-border opportunities have found it hard to compete against local sponsors within a competitive auction process when the market was booming. Now that valuations are more subdued, and the market is less pressured, it is an interesting time for international buyers. We will begin to see this trend play out, and it will be interesting to see how 2024 unfolds.

Amid a sea of economic and geopolitical challenges, are dealmakers dedicating more resources to due diligence to make sure potential deals get off on the right foot?

We are seeing a rise of vendor diligence across many different markets, even in markets that have not necessarily had a high level of experience in the process. In Asia, for example, a vendor will typically carry out financial, tax and other types of due diligence, whereas this was less common five years ago. ESG analysis is a newer area increasingly pursued.

In the corporate carve-out space, a major cause of disagreement over value, and in many cases a potential roadblock in the deal, is within IT services, contracts and costing. In response to this challenge, we have seen a rise in thoughtful preparation of the IT diligence materials linked to IT resources for a dedicated asset and a focus on IT compliance. There is definitely more time and care spent on smoothing over potential issues.

On the seller side, effective due diligence is part of de-risking a transaction and enhancing the probability of a deal crossing the line. We also see fairly rigorous and significant diligence analysis on the buyer side. Due to the shift in power between buyer and seller, the former can demand more concessions, and perhaps more price adjustments, by highlighting due diligence findings. It is in their interests to pursue the process vigorously.

Katie Klosterman

Managing Director & Co-Head of
Financial Institutions
Australasia at UBS

Katie Klosterman, managing director & co-head of financial institutions, Australasia at UBS, discusses persistent market uncertainty and the burgeoning carbon offset space

Global M&A activity in 2023 largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see a turnaround in the M&A market?

H1 2023 was pretty quiet on the dealmaking front in financial institutions, with a lot of uncertainty surrounding future prospects of deals. We are starting to see some green shoots emerge, as risk appetite for strategic deals among businesses that are well positioned to capitalize on growth increases. The market is really holding up from an equity market perspective, which is a positive for dealmakers.

For those companies less well positioned for growth, or maybe feeling more vulnerable to the uncertain macroeconomic climate, M&A becomes an attractive proposition to diversify their business as they enter a period of dislocation.

As the heady days of 2021 and early 2022 become an increasingly distant memory, we are seeing the bid-ask spread between buyer and seller begin to narrow. Dealmakers are gradually rebasing their valuation expectations in line with a relatively high interest rate environment, particularly within capital hungry start-ups.

In your experience, how much more creative are dealmakers having to be, in terms of alternative deal structures, to bridge valuation gaps and get transactions over the line?

We absolutely have been seeing more interest in alternative deal structures due to the current disconnect between public and private valuations. Alternative structures are being used to bridge that gap. There are plenty of conversations taking place behind the scenes.

On the supply side there is money willing to enter into alternative funding structures. And then on the demand side, companies frustrated with public market valuations are using alternative structures to bridge the valuation gap.

What do you think will be the biggest potential risks or challenges that dealmakers will have to contend with in 2024?

It is very much uncertainty within the market. Within the financial services industry, sentiment becomes reality very quickly. You really need buoyant and predictable conditions to drive M&A. And time kills deals. As soon as we start to experience a significant amount of uncertainty, whether it be geopolitical uncertainty, macroeconomic uncertainty or cracks in consumer confidence, deal discussions can be put at risk.

In the financial services market, we sit in the middle of all these factors. Everything impacts banks. The potential customer base is the whole Australian population, making the industry very exposed to external factors. As a result, dealmakers need to be in the right mindset to carry out transactions. If they're not, deals can fall apart very quickly.

Amid a sea of economic and geopolitical challenges, are dealmakers dedicating more resources to due diligence to make sure potential deals get off on the right foot?

As one of the most labor-intensive parts of the M&A process, we have always dedicated a large resource to due diligence. That being said, there has been a shift in how we approach due diligence. We have started bringing in a range of bankers from different sectors or with different expertise to cross-check processes and bounce off ideas. This is both on the due diligence side, but also on the M&A idea generation side, as sectors are becoming increasingly interconnected.

Finance touches on everything. We are starting to work much more as hybrid deal teams as opposed to acting in silos. That change is presenting itself in our due diligence processes. I wouldn't say we are dedicating more resource to due diligence – the devil has always been in the details – but the breadth of the resource that we dedicate to the process is increasing.

ESG is another area of focus. If I take a step back and look over the past five years, there has been more enhanced due diligence on cyber risk management, which feeds into the 'G' of ESG. Anti-money laundering is a particular focus for banks and always subject to elevated scrutiny during the due diligence process.

We have seen greater due diligence in governance risk culture because, ultimately, financial services companies are people-heavy businesses. You don't have hard assets, so your due diligence isn't focused on a tangible asset. It is instead about putting robust processes and procedures in place to ensure businesses treat their customer needs appropriately.

Do you expect greater scrutiny or new regulation regarding ESG in your jurisdiction? How will this affect dealmaking?

One of the most active spaces in our market right now is carbon offset. It is a new commodity, and there are financial markets emerging to trade that commodity. All the infrastructure currently being built almost replicates the trading of equity shares. Any regulation that impacts how those carbon credits, or indeed any ESG commodity, is generated, recorded or traded could impact M&A activity or opportunities in the financial services industry.

Claire O'Donnell

Partner
Norton Rose Fulbright



Claire O'Donnell and Lucy Bruce Jones, partner and special counsel, respectively, at international law firm Norton Rose Fulbright, discuss creative measures adopted by dealmakers globally and major developments in ESG standards



Lucy Bruce Jones

Special Counsel
Norton Rose Fulbright

Global M&A activity in 2023 largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see a turnaround in the M&A market?

O'Donnell: From my perspective we have actually been experiencing a pretty strong year in terms of dealmaking. While there is a healthy pipeline for deals in the areas we operate, I appreciate this does not necessarily reflect the global M&A market more generally.

While the market is active, the deals taking place are not 'cookie cutter' – there is no easy ride in the current climate. Buyers are finding it increasingly hard to get funding in place, and due diligence is being taken even more seriously. On top of this, pricing deals accurately is becoming an increasing challenge. All this is taking place against a backdrop of macroeconomic and geopolitical uncertainty, which in turn is impacting M&A.

In a more complex M&A market, are you seeing dealmakers become more creative? What are the main drivers of activity?

O'Donnell: While transformative deals are not for the faint-hearted in the current climate, we are seeing a lot of activity among dealmakers looking to plug gaps in their business – particularly those who aren't reliant on third-party financing.

What I would say is that one entity's cloud is another's silver lining. A few years ago, some clients may have decided not to proceed with a deal due to the pricing not being right. In today's deal market, the parameters have changed. Targets are not looking as overpriced anymore, leading to potentially favorable returns.

We are seeing many companies previously in survival mode during the pandemic now proactively re-engaging with M&A. They are looking for acquisitions to plug gaps and also looking to dispose of underperforming assets. We are seeing significant growth in carve-out activity as a result, which I expect to increase over the coming months.

Do you expect greater scrutiny or new regulation regarding ESG globally or in your jurisdiction? How will this affect dealmaking?

Bruce Jones: Definitely, specifically around the 'S' and the 'G'. While not a new topic, we have seen ESG really pushed up the dealmaker agenda recently, with new regulation putting ESG issues within the M&A process under a lot more scrutiny.

Europe has been leading the way in terms of ESG regulation, with the UK and US following suit. The driving force in Europe has been the EU Green Deal, along with the EU and UK's net-zero commitments. These changes bring with them a wealth of different mandatory reporting requirements, and we are already seeing some businesses conducting voluntary reporting and disclosures to display transparency.

In terms of how this is affecting M&A, public relations and litigation risks are increasingly being looked at in the dealmaking process. With the ESG agenda going in one direction, businesses need to have a clear understanding of their risk profile in these areas.

In which region do you expect to see the biggest leap forward in terms of ESG standards in 2024?

Bruce Jones: Europe is really forging ahead in terms of developing ESG standards. The EU Corporate Sustainability Reporting Directive (CSRD), which came into force in January 2023, brings a host of new regulatory requirements in relation to disclosure and reporting, affecting both EU and non-EU companies.

In addition, the new corporate due diligence duty being put in place pursuant to the proposed Corporate Sustainability Due Diligence Directive requires companies to identify and either prevent or mitigate adverse human rights and environmental impacts in their own operations, as well as through their value chains. The exact scope of the corporate due diligence duty, expected to be adopted in 2024, is still under debate. While these types of requirements are already in place in Germany and France, they will be made EU-wide going forward.

There is a huge push on tackling greenwashing within the EU and UK, including more regulatory proposals from the Financial Conduct Authority and Competition and Markets Authority regarding specific rules in this area. More broadly, ESG standards are being rolled out to support some of these legislative requirements. For example, European Sustainability Reporting Standards to support new directives are coming in, and the International Sustainability Standards Board's (ISSB) standards were issued in June 2023.

These standards have been strongly supported by the UK government, who are urging for them to be adopted within domestic legislation. Other countries across the continent are also looking to implement the ISSB standards into their legal frameworks.

While ESG legislation in the Middle East is in the very early stages, governments in the region have recently started putting in place frameworks for ESG-type requirements. We are seeing movement in various jurisdictions, and of course some are more active than others.

I think overall we are seeing the majority of jurisdictions moving forward in terms of net-zero commitments, albeit at different stages and with different targets. But there is generally a lot of weight being placed behind this agenda, which is moving conversations forward.



Karen Baum

Managing Partner of Sustainability & ESG Services
BDO USA

Karen Baum, managing partner of sustainability & ESG services at accounting firm BDO USA, discusses how increasingly strict ESG standards will shape the future of M&A dealmaking

Do you expect greater near-term scrutiny regarding ESG issues?

Although companies across the globe should be bracing themselves for heightened regulatory scrutiny, expectations around sustainability practices are moving faster than governments can enact rules to codify conduct.

That said, while new regulations continue to emerge globally, in the US we are seeing both pro- and anti-ESG legislation at the state level. Just as the Corporate Sustainability Reporting Directive (CSRD) impacts organizations doing business in the EU, California’s new climate disclosure rules impact companies that do business in California, regardless of where they are domiciled. Further, the SEC is bolstering its enforcement division and has been pursuing US registrants for greenwashing claims in advance of issuing new climate disclosure rules.

The proliferation of regulation adds another due diligence dimension around regulatory reporting, risk management and the M&A target’s compliance obligations. In addition, misalignment around ESG strategy, besides ESG risks identified during due diligence, will need to be addressed in the hold/integration period. This can impact pricing, synergy capture and a deal’s overall success.

If operational adjustments are necessary to comply with new regulations that increase a target’s cost of doing business or changes its risk profile, the acquirer may need to adjust the terms, conditions and/or pricing. When evaluating a target, PE buyers should consider where a company is on their ESG journey and the degree to which sustainability must be prioritized during the hold period. Finally, given the fund’s own sustainability reporting requirements, the complexity and cost of integrating and aligning the target with the fund’s existing sustainability strategy and portfolio reporting must be considered.

Which region will see the biggest leap forward in terms of ESG standards in 2024?

For nearly a decade, the EU has led the world in ESG. With forthcoming frameworks like the CSRD and Corporate Sustainability Due Diligence Directive, it is poised to continue leading.

All eyes are on the European Commission’s proposal to regulate ESG ratings providers. Other jurisdictions including Japan, India and the UK have introduced similar regulations, but the EU draft legislation is the most stringent. In addition, the International Sustainability Standards Board issued two new standards (IFRS 1 and 2) in June 2023, providing a standard to make sustainability reporting more consistent, complete, comparable and verifiable.

Other countries, particularly Canada, Australia and the US, are catching up. Notably in the US, both federal and state-level regulations are on the docket. In addition to its proposed climate disclosure rules, the SEC recently finalized amendments to the Investment Company Act of 1940 that seek to protect investors from greenwashing. At the state level, New York has proposed the Fashion Sustainability & Social Accountability Act, and California the Climate Corporate Accountability Act. These regulations cast a wide net, requiring companies that do business in these states to report on a variety of sustainability metrics and activities based on meeting specific revenue size thresholds.

What aspect of ESG will have the biggest impact on M&A?

ESG introduces more stakeholders and objectives to the investment equation that require careful consideration. Notably, the Sustainability Accounting Standards Board framework was developed to help investors make more-informed investment decisions using an industry-specific lens that considers a target’s ESG attributes.

There are consequences to poor ESG performance, so we’re seeing buyers require the inclusion of ESG-linked representations and warranties from sellers during the negotiation process. A business’s sustainability is becoming a dealbreaker – BDO’s 2023 Private Capital Survey showed that more than 90% of fund managers with AUM over \$15 billion have declined at least one deal due to ESG issues.

ESG due diligence may reveal significant risks and costs that may not otherwise have been caught and priced into the deal. For example, a target that has not adopted a climate mitigation or decarbonization strategy may require significant investment in the hold/integration period to be competitive with its peers and/or aligned with the buyer’s sustainability objectives.

Nonetheless, investors are finding that long-term opportunities to create value are outweighing the risks. PE funds increasingly see ESG programs as accretive to value creation and consistent with their strategies. No longer seen solely as a compliance exercise, dealmakers increasingly recognize sustainability as a catalyst and genuine value driver in M&A.

Are more deals emerging now with ESG/ sustainability as the number-one driver?

ESG/sustainability concerns have not been the primary drivers in dealmaking, but they are a growing priority for many investors. The Forum for Sustainable and Responsible Investment reported that sustainable investing principles are involved in one out of every three dollars invested in the US, or around US\$17 trillion in total assets invested.

Some investors view ESG through an exclusionary lens, serving as a dealbreaker rather than a driver. Exclusionary screening creates significant risk for carbon-intensive industries, and that risk will increase as more businesses take on net-zero pledges. But carbon is far from the only screening criteria – ESG-related controversies such as human rights violations may also remove targets from consideration.

Impact investment strategies that prioritize environmental or social impacts are increasing, but as an asset class currently account for a smaller proportion of capital deployed. But prospects for impact and returns abound. The clean energy transition presents a massive market opportunity, and while venture capital funding for climate tech is down this year, deal count is at its highest level since the market’s peak in Q4 2021. Appetite for investments in climate mitigation, supply-chain resilience, fleet electrification and emissions-tracking tools remain high.

Louella Stone, head of law firm MinterEllison's Sydney M&A team, discusses how the pace of economic, regulatory and political change globally is weighing on dealmaking



Louella Stone

Head of M&A, Sydney
MinterEllison

Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022. When might we expect to see M&A turn things around?

While, generally speaking, there has been a downturn in M&A globally, from our perspective we are seeing some strong momentum for deals. Activity is looking really positive, and I expect this to translate into a real increase in volume and value through 2024. Yet there will be some sectors that recover sooner, simply because they hold strategic opportunities to create long-term value, which everyone is looking to do at the moment. Of course, the ongoing conflict in Gaza is impacting markets and will continue to have an impact for the foreseeable future.

Are there any sectors that you think will demonstrate notable resilience in terms of M&A between now and the end of 2024?

There is a lot of activity being driven by the global decarbonization drive, and we are seeing healthy growth in transactions to deliver on this. I expect this to be one of the main drivers of dealmaking in 2024.

Healthcare, too, is seeing real growth. It is an exciting market experiencing a lot of change, making it a sector to watch. There are a few key drivers – one is Australia's rapid population growth, which is placing demands on the healthcare market. An increase in day hospitals and home healthcare, such as health hubs and AI-enabled healthcare, along with an increased focus on mental health, are all generating transactional activity. Even some of the strong property players are interested in the health sector as they are looking at the prevalence of day hospitals.

We are seeing strong technology dealmaking activity across all sectors. Across the board, dealmakers are trying to catch up in terms of getting the right technologies on board and making sure that they are delivering value to investors.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

The real big-ticket deals, which PE players love, are taking longer to complete in the current market. Similar to the general M&A trends in the PE market, there has been an uptick in the pipeline, particularly in the mid-market with a focus on healthcare and tech. We are witnessing PE funds focusing on bolt-on acquisitions, restructurings and refinancings in order to lift value. ESG and compliance in a PE portfolio is also a popular way of increasing value.

I believe the big transactions will come as investor confidence in financial projections and the quality of assets increase.

Although there is record-breaking dry powder PE firms are still leaning towards a more conservative dealmaking approach, as opposed to higher risk strategies. There has also been a significant increase in private credit, which has somewhat mitigated the price and availability of the debt from the traditional banks.

What do you think will be the biggest potential risks or challenges that dealmakers will have to contend with in 2024?

We will continue to be challenged by the pace at which economic and political environments can change. Usually in a deal, we have a gap between signing and completion. But with everything moving so quickly that becomes an increasing challenge. This can create a sense of nervousness around signing a deal, where the parties involved are not quite sure what the environment will look like at completion.

In Australia, dealmakers are contending with a wave of regulatory change. This poses a challenge for dealmakers looking to accurately value targets. The two greatest regulatory forces in the Australian market are the Foreign Investment Review Board and the Australian Competition and Consumer Commission (ACCC).

There have been multiple changes to foreign investment rules over the years. There is a real focus on national security, as we see globally, and as such there is sometimes a gap in applying the foreign investment rules. Assessing transactions and engaging with the regulator – asking questions around competition and tax and national security – has become paramount.

The ACCC has recently appointed a new chair with a stated aim to change Australia's merger laws in line with other foreign jurisdictions to provide for a formal clearance model. While this change hasn't come into force yet, it is an area to watch.

In terms of ESG, while Australia is behind some of the first movers such as the US and the UK, and in particular France, we also expect a proliferation of ESG-related regulation over the next year. There will be new risks to be assessed, and due diligence practices will need to evolve accordingly.

What facets of due diligence are dealmakers prioritizing in transactions?

In a relatively soft deal market, sellers will look to create a more competitive environment. One way to do this is through producing a detailed vendor due diligence report. This can help buyers decide on the right value for a target without having to expend capital upfront. We are increasingly seeing this approach.

There is a real focus on the regulatory pressures we have spoken about – are buyers and sellers complying with the different parts of regulation? What has their engagement been like with the regulator? I think there is a real shift to focus on reputational matters. Topics such as sexual harassment, for example, have the potential to really affect the reputation and value of an organization. These issues can't be found in traditional ways of doing due diligence. The art is in asking the right questions.

ESG is of course a huge topic that we are increasingly seeing due diligence questions tailored to. Something that concerns me is that ESG compliance becomes a tick-the-box exercise. In reality, it needs a much more critical assessment, and that is really where value can be created. For example, looking at how contracts respond in the event of a climate event, such as a flood or fire. That forward-looking assessment of risks and opportunities is really important from an ESG perspective. If done correctly it can lift the value of a whole portfolio.



Louise Wallace

Partner & Head of Corporate/M&A
CMS

Louise Wallace, partner & head of corporate/M&A at law firm CMS, discusses the improving clarity around interest rates and prospects of a return of larger deals in resilient European markets

Global M&A activity in 2023 largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see M&A turn things around?

I believe the turning point is starting to appear. We recently published our CMS European M&A Outlook report where we spoke to 350 M&A professionals – both corporates and private equity (PE) firms – to sound out their views of the European M&A market. Of the dealmakers we surveyed, 43% believe there will be a further drop in activity over the next 12 months, while 35% forecast growth.

Opinions on when the turnaround might happen will depend on who you speak to. We found that, backed by large amounts of dry powder, PE players are much more confident. They are more bullish, and rightly so, than some of their corporate counterparts. It is not a one-size-fits-all approach and is dependent on the sector dealmakers are working in.

Deal activity in 2022 and moving into 2023 was slower than we all would have hoped. However, I believe we will start to see a pick-up in activity as we move into 2024. We have already seen an increase in deal activity compared to the beginning of 2023, and this momentum will continue.

Are there any regions, or indeed specific countries/markets, that you think will demonstrate notable resilience in terms of M&A between now and the end of 2024?

Perhaps surprisingly, given the ongoing challenges of Brexit, the UK & Ireland topped our poll in terms of future dealmaking activity. I think there are a number of reasons behind this trend. One is the relatively stable political system in the region, notwithstanding the prospect of a general election in the UK either in 2024 or in January 2025. But there are also structural factors at play, including a strong technology base and expertise, a healthy deal finance market, and comparatively welcoming regulations around foreign investment. Ireland is holding up well due to its solid debt market and benign FDI and antitrust regimes, and we are seeing a number of transactions taking place as a result.

Iberia was another popular M&A destination in our Outlook results, with the cost competitiveness of local businesses making the region conducive for dealmaking. Benelux is also tipped for growth due to its stable economy and business friendly environment, with the Netherlands particularly active.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

I would agree that the top-end of the PE market has been remarkably less active, with fewer big-ticket transactions taking place in 2022 and H1 2023.

Considering how highly leveraged businesses are, one of the challenges PE buyers face is surrounding debt costs. A combination of higher interest rates and increased margin requirements has had a negative impact on dealmaking.

Now there is a level of clarity around interest rates staying at a similar level, probably at least through 2024, dealmakers can at least price on that basis. We will begin to see some larger deals take place as a result. We have already witnessed an increase in club deals, where PE players join together in a transaction to gain financial firepower and mitigate market risk.

Amid a sea of economic and geopolitical challenges, are dealmakers dedicating more resources to due diligence to make sure potential deals get off on the right foot?

Dealmakers are dedicating more resources both on the buy and sell side. Sellers are trying to carry out as much preparation for the sale as possible as they don't want to give buyers any excuse to walk. A lot more preparation for the sale is taking place in the form of legal vendor due diligence. This trend is exacerbated by the fact that the number of carve-outs is increasing, meaning businesses need to work out exactly what is going up for sale.

Buyers, meanwhile, don't want any skeletons in the closet. They want a true understanding of how synergies are going to fit across the business. We are seeing post-merger integration taking place earlier for this reason, whether it be integrating people and premises, IT systems or trademark portfolios. It's only getting more important.

ESG due diligence is becoming increasingly crucial. I only see this trend going one way, with scrutiny on ESG issues climbing sharply over the past few years. I don't think the increase in ESG due diligence will hamper M&A activity, however. In fact our research in the M&A Outlook shows that the growing wave of ESG and climate change regulations will have the opposite effect, and that understanding the ESG position of a target can lead to its own opportunities.

As a buyer though, the impact on the bottom line of the acquired business should not be underestimated when implementing ESG policies. For example, if a buyer needs to bring a smaller business up to speed with their own ESG standards, this can add quite a cost to their bottom line. However, I do think the trend is only going one way, as it should be.

Scrutiny on ESG issues is often driven by PE players, as LPs are asking PE houses to report on their portfolio companies. It's true that what gets measured gets done so we will see an ever-increasing focus on ESG due diligence in the deal process.

Lucien Ong

Group Director of M&A and
Corporate Development
Jebsen & Jessen Group



Lucien Ong, group director of M&A and corporate development at industrial conglomerate Jebsen & Jessen Group, discusses dealmaking post-Covid and prioritizing sustainability in M&A due diligence

Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see a turnaround in M&A activity?

Within the Southeast Asian deal market, we are observing an equal number and quality of deal opportunities today compared to those seen 12 months ago. However, the deal environment has become less competitive, with fewer active buyers, which leads to less competitive tension in auction processes. This is attractive to us, and allows us to negotiate more favorable deal terms and structures. We also observe that deals are being made between strategic buyers with clear synergies, whether it is a cost synergy or cross-selling across markets, alongside sellers who have reasonable expectations. I think this trend of strategic buyers leading the way will continue for the foreseeable future, until the market recovers.

What do you think will be the biggest potential risks or challenges that dealmakers will have to contend with in 2024?

The challenges we are seeing are a direct result of operating in a post-Covid environment, with the pandemic significantly impacting this region. A year post-Covid, assessing the sustainable, long-term performance of a target remains difficult. Even if we look at the financials of target companies from the last three to five years, certainty is lacking. For this reason, I believe 2023 will become an important year for companies, as they will have the opportunity to present their sustainable performance going forward.

Are dealmakers dedicating more resources to due diligence to make sure potential deals get off on the right foot?

At Jebsen & Jessen Group, we have always dedicated focused resources to due diligence because of the substantial long-term investment decisions we make. When seeking opportunities in new geographies and industries, we dedicate even greater resources. When assessing an opportunity in a new geography, for instance, it is essential that our due diligence partner has a local office in the area or, at the very least, has a track record of local projects in the geography.

What facets of due diligence, if any, are dealmakers increasingly prioritizing or emphasizing in transactions?

Apart from the standard financial, tax, legal and HR aspects, sustainability/ESG is the next big category in due diligence. Jebsen & Jessen has historically been deeply committed to issues regarding sustainability. In 2011, we believe we were the first industrial company in Southeast Asia to achieve carbon neutrality. We are relieved to see a growing awareness in the public domain surrounding sustainability and are happy to see the shift in broader markets.

Typically, when we look at deals, we commission independent sustainability assessments. First, we assess the sustainability of the industry and, second, the sustainability of the target itself. If the target does not meet our sustainability thresholds, we do not proceed to the next step in the M&A process. We have a strong sustainability filter for deals.

Are you seeing ESG as the number-one driving factor for deals? And if so, is this mainly a concern for certain sectors such as the energy sector or is it a trend that you’re seeing across sectors?

Jebsen & Jessen Group is a diversified industrial group, and sustainability is at the heart of every investment we make. For this reason, we are a case in point that sustainability concerns span across sectors, as they should.

As part of a 130-year-old family enterprise, it is important for us to invest in businesses that we believe will be sustainable over the long term. Once a business passes through due diligence and the investment committee is comfortable to proceed, we make the acquisition. Following the acquisition, we review the sustainability practices within the target and implement various ESG or sustainability best practices and standards, as our objective is to be the most responsible player in the industry.

On the topic of sustainability, Jebsen & Jessen Group recently launched our inaugural group-wide Sustainability Report based on a framework designed by the Family Business Network (FBN) and the United Nations Conference on Trade and Development (UNCTAD), which is available on our website. Although we are a private enterprise, we believe as a group it is important to be publicly accountable and we encourage other companies to follow suit.



Shengyan Fan

Managing Director of the M&A Department
China Everbright Limited

Shengyan Fan, managing director of the M&A department at financial services firm China Everbright Limited, discusses defensive dealmaking strategies and the rapid adoption of new technologies

Global M&A activity in 2023 has largely followed the downward trend that emerged in 2022, albeit with pockets of resilience and even signs of a nascent recovery in a small handful of markets and sectors. When might we expect to see M&A turn things around?

There is a general sense of subdued market activity compared to previous years. This is largely due to a host of looming risk factors that dealmakers are trying to navigate through. Having said that, while investment and exit counts may have come down in the Asian market, fundraising levels have more or less remained at the high level seen over previous years.

We are seeing dealmakers actively scouting out and executing buyouts and M&A transactions. For this reason, we do not think the market is as depressed as it might appear. There is a lot of preparation happening as dealmakers gear up to pull the trigger on deals when market conditions improve. This pent-up appetite for deals will be released in due course.

Even with an abundance of dry powder, PE firms seem reluctant to make big-ticket transactions. What do you think will happen to the level of PE activity between now and the end of 2024?

The current market is not the most favorable in terms of exit deals, and there is substantial downward pressure on value in the stock markets. Yet, at the same time, a lot of work is taking place in other phases of PE-related operations, such as fundraising. We are seeing a real pick-up of activity in this space.

In the current climate, are dealmakers choosing to follow a defensive dealmaking strategy?

Defensive M&A is generally favored in the current climate. Fundamentally, acquirers are looking for businesses that can defend themselves against the risks coming from all angles. Whereas in the past dealmakers could anticipate where risk might come from, today there are just so many added risk factors: geopolitical issues, interest rate rises, currency risk and regulatory issues, to name a few.

In this environment, it is very difficult to accurately anticipate and prepare for all the various risk factors when you enter a deal. What dealmakers are looking for is a target with the financial strength and management quality to provide additional protection. Whereas in the boom years dealmakers would proactively follow their expansion growth strategy, they now have to triple check their expansion assumptions in the current climate. Dealmakers will want to make sure that potential value creation activities do not come at the cost of losing financial security/soundness for the company.

What do you think will be the biggest potential risks or challenges that dealmakers will have to contend with in 2024?

We are increasingly seeing that, due to certain requirements on the customer side, companies are now adopting a more regional and localized approach to supply.

In this environment, cross-border M&A does not generate the value for an Asian firm as it did in previous years. To adapt, companies must become nimbler and more flexible, offering customers more options in terms of supply than in the past. These are the dynamics that a PE manager must now consider. In this type of market environment, communicating with the management of the portfolio companies becomes essential.

In light of the challenges and risks facing deals, are dealmakers dedicating more resources to due diligence?

The slowing pace in the deal market affords us more time to conduct due diligence, develop a dialogue, and understand the target’s business fundamentals. Having more time is obviously a positive, but simultaneously you need to be aware of the competition. If the price is favorable, dealmakers will want to close the deal quickly.

Another area of focus is understanding the technological improvements a company can potentially embrace. In a more traditional industrial manufacturing setting, the technology factor was perhaps not as important. Today, the rapid adoption of new technologies, whether on the production floor or in the central office, requires increased scrutiny. New technologies offer management the potential to reduce cost and improve efficiency quite drastically. Our goal is to understand how these technologies can help a company move into a new business area.

Part of the reason we are placing a greater focus on due diligence is that we want to spend more time reassessing certain assumptions in the deal market. To best manage risk and achieve growth, we need to look through the lens of current risk issues to see whether old assumptions can be held true going forward. Very often we find ourselves needing to adjust these assumptions — another reason why effective due diligence is critical in today’s deal climate.

