Mergers & Acquisitions: Editor's Preface

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Slaughter and May
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As discussed in the previous edition of *In Depth: Mergers & Acquisitions*, global mergers and acquisitions (M&A) struggled in the first half of 2023. Global deal value was down 44 per cent year on year and leveraged deal value (including private equity) was down 54 per cent.[1] In the Americas, dealmaking fell to 6,775 deals worth US$737 billion – decreases of 24 per cent and 33 per cent respectively.[2] In Europe, the Middle East and Africa (EMEA), the drop in deal value was even steeper – €336 billion year on year (48 per cent).[3] In the Asia-Pacific (APAC) region, the number of deals was down 16 per cent to 4,781 and the aggregate value dropped by 34 per cent to US$378 billion.[4]

Despite a slight rebound in dealmaking in the final quarter of 2023, it was too little too late. M&A in EMEA finished 2023 9.8 per cent lower than in 2022, with 16,039 transactions worth €814 billion (a reduction in value of 25.7 per cent).[5] There was a similar story in APAC, which finished the year with 10.1 per cent fewer transactions (9,822), worth US$807 billion (down 19.9 per cent).[6] The Americas saw a 19.5 per cent reduction in the number of deals (down to 13,288), but the aggregate value fared quite well, falling by just 8 per cent to US$1.74 trillion.[7] In total, 2023 proved to be the second weakest year for global M&A in the past decade, with aggregate deal value down by 15.8 per cent compared with 2022.[8]

Into 2024, M&A in EMEA is improving. The regional economy exited a short-lived recession with 0.3 per cent growth in the first quarter, and unemployment has reached an historic low. Eurozone inflation has hovered between 2 and 3 per cent for much of the year and, in June, the European Central Bank cut interest rates to 3.75 per cent, its first cut since 2019. The Bank of England cautiously maintained its base rate at 5.25 per cent for much of the year, but made its first cut on 1 August 2024 and reduced rates to 5 per cent.

Aggregate deal value in the first quarter increased 29 per cent year on year to €183 billion, although deal volume fell by 24 per cent to 3,410, signalling the return of fewer but larger transactions.[9] However, there is a continuing sense of caution. There are some mixed signals emanating from the German and French economies, and the path forwards for them is not obvious. There are new politicians in the French and European parliaments who may bring changes to the political and regulatory environment, and there are no solutions yet to the crisis in Ukraine.

In the Americas, too, there has been a return to large transactions. While the number of deals in the first quarter fell year on year by 28.3 per cent to 2,864, the aggregate value increased by 75 per cent to US$570 billion.[10] This was the second highest quarterly figure in the past two years. Importantly, private equity activity also improved. Aggregate private equity deal value increased by 36 per cent year on year to US$173 billion.[11] However, as with EMEA, some challenges persist. The US economy grew by 1.6 per cent in the first quarter, below the projected figure of 2.5 per cent.[12] US inflation is coming down but slower than anticipated, and the recently strong labour market has struggled in the past few months. Finally, it is an election year and US companies could soon find themselves caught in tariff standoffs with Europe and China.

The start of 2024 has been more challenging in the APAC region. While the IMF has predicted a healthy growth rate of 4.2 per cent in 2024, M&A deal volume and value are down so far. The number of deals fell in the first quarter by 24 per cent year on year, and the aggregate value is down 35 per cent to US$132 billion. Private equity activity in the region is also down 38 per cent year on year to US$29.6 billion in value.[13]

In total, the first half of 2024 has been positive for global M&A, despite some difficulties in APAC. Total deal value is up 17 per cent year on year and there have already been 20 deals worth over US$10 billion each.[14] 73 per cent of this activity came from corporates, which are making the most of their significant cash reserves (for example, the magnificent seven – Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla – hold over US$450 billion in cash at the time of writing) and strong valuations (the S&P500, in particular, is up 20 per cent over the past year). Private equity is making a comeback, too, as central bankers loosen their monetary policies. Buyouts are up 36 per cent year on year (worth US$281 billion compared with US$205 billion in the first half of 2023).[15] Private equity has been involved in four deals worth over US$10 billion each, an increase from two during the same period in 2023. This trend will continue, with private equity holding US$2 trillion in dry powder and under pressure to deploy it.[16] There is also pressure to realise profits, and exits are increasing as funds become conscious that they will struggle to raise money again if they fail to distribute profits. Private equity has interests in 27,000 companies globally and, while initial public offerings remain an option, secondary buyouts are proving popular.[17] In the second quarter of 2024, 42 per cent of exits were secondary buyouts.[18]

Global M&A seems to be turning a corner, and there is a sense of optimism as macroeconomic conditions improve in Europe and North America. For corporates, strategic M&A will be critical to securing inorganic growth, navigating the energy transition and taking advantage of the generative artificial intelligence revolution. For private equity, there are opportunities to deploy cash and return profits to investors.

I would like to thank the contributors for their support in producing the 18th edition of *In-Depth: Mergers & Acquisitions*. I hope the commentary in the following 28 chapters will provide a richer understanding of the shape of the global markets, and the challenges and opportunities facing market participants.

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Footnotes

[1] Bain, 'M&A Midyear Report 2023: It Takes Two to Make a Market'.

[2] Mergermarket, 'Deal Drivers: Americas HY 2023'.

[3] Mergermarket, 'Deal Drivers: EMEA HY 2023'.

[4] Mergermarket, 'Deal Drivers APAC: HY 2023'.

[5] Mergermarket, 'Deal Drivers EMEA: FY 2023'.

[6] Mergermarket, 'Deal Drivers APAC: FY 2023'.

[7] Mergermarket, 'Deal Drivers Americas: FY 2023'.

[8] Pitchbook, 'Global M&A Report 2023'.

[9] Mergermarket, 'Deal Drivers EMEA: Q1 2024'.

[10] Mergermarket, 'Deal Drivers Americas: Q1 2024'.

[11] ibid.

[12] ibid.

[13] Mergermarket, 'Deal Drivers APAC: Q1 2024'.

[14] Mergermarket, 'M&A Highlights 1H24: In recovery'.

[15] ibid.

[16] McKinsey and Company, 'Top M&A trends in 2024: Blueprint for success in the next wave of deals'.

[17] PwC, 'Global M&A industry trends: 2024 mid-year outlook'.

[18] Mergermarket, 'M&A Highlights 1H24: In recovery'.