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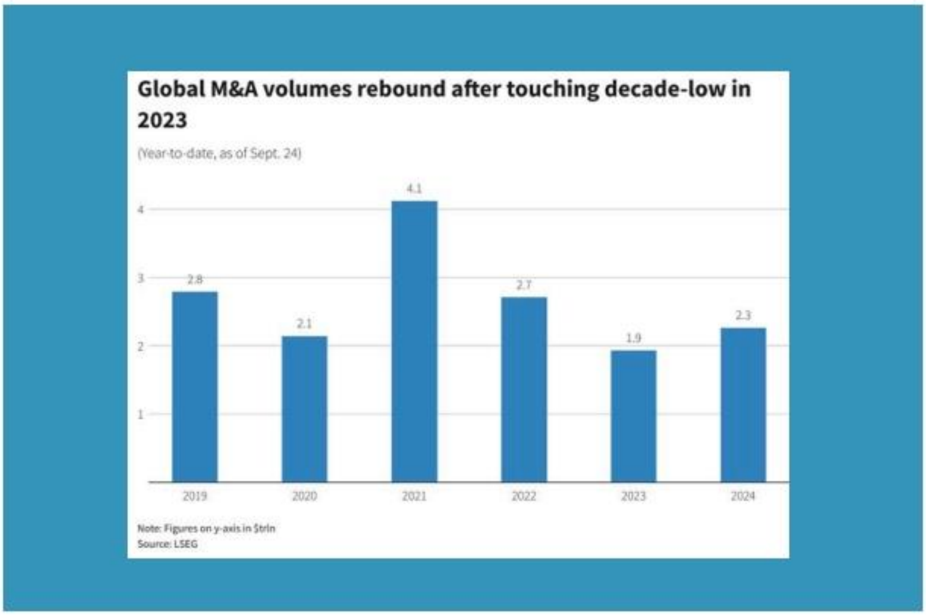
Client Note: M&A 2024 Q3 Report

The mixed bag of mergers and acquisitions (M&A) activity that has characterized most of 2024 continued during the third quarter. On the positive side, Reuters reported that, based on data from Dealogic, the deals signed globally as of September 25 of this year totaled $846.8 billion, up 14% from the year-earlier period. This increase in activity was most pronounced in the AsiaPacific region, where deal volume surged 54% to $273 billion, and in Europe, where deal volume was up 7% to $160 billion. Conversely, M&A volume in the U.S. fell to $338 billion, an 8% drop from the year-earlier period. Market participants have noted that increased antitrust scrutiny from regulators around the world has had a particularly chilling effect on very large deals, especially those so-called "megadeals" worth more than $25 billion. In fact, Reuters noted that there has not been a single transaction signed in 2024 with an equity value of at least $50 billion. On the other hand, transactions with values of between $1 billion to $10 billion were up 27% in the third quarter, indicating that conditions do remain favorable in order to complete certain types of deals.

The turbulence in deal making has been driven by a number of persistent factors. In terms of headwinds, although interest rate cuts have been announced by several prominent central banks in the past few months—including the U.S. Federal Reserve, the Bank of England and the European Central Bank—interest rates remain relatively higher than the levels seen in recent history prior to the rampant inflationary period of the past two years. These higher interest rates, which increase the cost of capital for borrowers looking to finance M&A transactions, have had a sustained chilling effect on the market. Moreover, there remains a significant gap in valuation expectations between buyers and sellers in many sectors, which has been exacerbated in some respects by the well-performing public equity markets. Finally, certain non-economic factors continue to dampen enthusiasm for undertaking potentially risky M&A transactions—namely, the worsening geopolitical instability in the Middle East and, to a lesser extent, Ukraine; as well as uncertainty regarding election outcomes in the U.S., and the effect that a new federal administration could have on issues such as trade policy and antitrust regulation.

Despite these headwinds, third quarter results show that positive factors exist as well, and many market participants remain hopeful that a broader surge in M&A activity is on the near horizon. Recent data indicates that overall inflation in the U.S. continued to subside in September, although it remains at a slightly higher rate than economists had expected. Nevertheless, the sentiment persists that this data will encourage the Federal Reserve to continue on its stated path of cutting interest rates in the near term. These cuts would allow businesses to access capital at relatively favorable costs, thus encouraging investment and likely fostering enhanced M&A activity. Moreover, many potential buyers (including both private equity firms and strategics) are still sitting on and looking—if not needing, especially in the case of private equity firms obligated to use or lose their limited partners' capital—to deploy vast cash reserves that were accumulated over the 2020-2022 period, which could provide the capital necessary to undertake M&A activity without the need for additional financing. In fact, per Reuters, the third quarter saw an increase of 42% in the volume of global private equity-led buyouts. Finally, the uncertainty regarding the future political situation in the U.S. should be resolved in the coming weeks. For all these reasons, there exists reasonable grounds to believe that the remainder of 2024, and especially 2025, will see a more welcoming environment for M&A activity.



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