M&A Trends and Outlook for 2023

AlphaSense

What's Inside

AlphaSense

Introduction

After three volatile years, rife with challenging macroeconomic conditions—from a global pandemic and wars to far-reaching supply chain issues—the M&A space has its fair share of ups and downs.

2020 ushered in unprecedented uncertainty and transformation, as businesses worldwide scrambled to adapt to shutdowns amidst a global pandemic. Shifting gears, 2021 saw a boom in M&A activity and investor confidence, as the world steadily began to recover. Then, M&A activity saw another steep dropoff after Q2 2022, as high inflation, rising interest rates, and geopolitical uncertainty hindered dealmaking, and lower share prices made it more difficult for acquirers to pay for acquisitions.

Historically, M&A tends to slow down during times of economic volatility or uncertainty, but often these are the times when valuations become more attractive and new opportunities begin to emerge. 2023 so far has revealed ideal conditions for dealmaking due to valuation resets, lessened competition for deals, and new assets coming to market.

Whether you are a corporate dealmaker interested in competitive landscaping and strategically growing your business, a consultant seeking validation for M&A

recommendations, or a financial services professional in need of jumpstarting idea generation for portfolio expansion—this guide is for you.

Using the AlphaSense platform, we uncovered the key trends affecting the M&A space on both a domestic and global level, as well as industry impacts, this year.

Below we cover the key trends, unique opportunities, challenges, and factors shaping the M&A space in 2023, as well as how they translate into an outlook for 2023 and beyond.

CHAPTER 1

2023 Mergers and Acquisitions Trends at a Glance

- **After a decline in deals in 2022, M&A activity is picking up again in 2023.**
- **Energy, industrials, and tech are the industries best positioned to strike the largest M&A deals.**
- **Increases in enforcement and legislation in the US are affecting how companies enter deals.**
- **Small to midsize M&A deals are on the rise as valuations reset.**
- **PE firms are responsible for an increasingly large proportion of deal volume.**
- **Cross-border M&A deals are becoming more popular for growth-focused companies.**
- **AI is playing an increasingly large role in M&A dealmaking.**
- **Around the world, investors are favoring companies that have proven their profitability and that can demonstrate how they have successfully utilized their capital.**

CHAPTER 2

M&A Trends by Industry

Healthcare

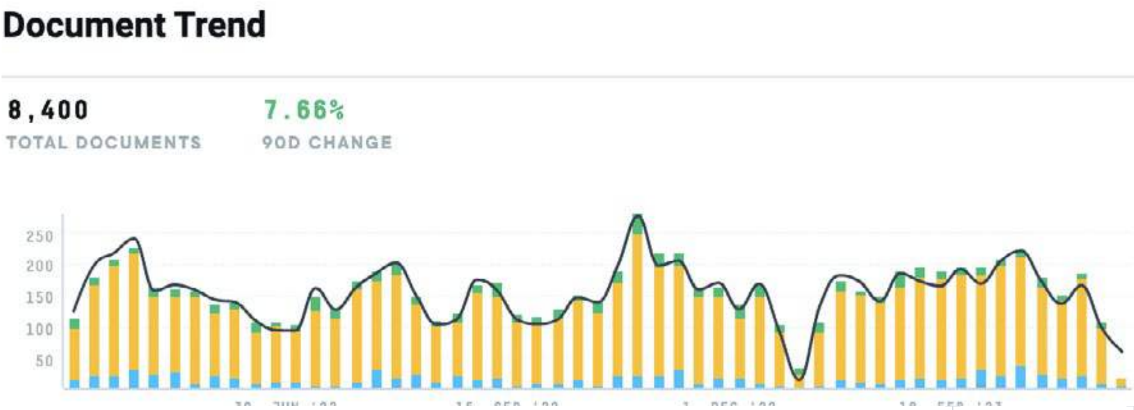
The COVID-19 pandemic ushered in a wave of unprecedented innovation, progress, and transformation to the healthcare industry in 2020. Three years later, despite macroeconomic uncertainties, investors remain attracted to this space, particularly the more innovative and tech-influenced sub-sectors like biotech and MedTech.

Healthcare companies remain bullish on the opportunity to grow through M&A.

At the same time, healthcare companies remain bullish on the opportunity to grow through M&A. Many pharma companies with expiring patents are on the hunt to acquire companies to address gaps in drug pipelines.

With the current heavy focus on value-based care—a medical philosophy that focuses on improving outcomes and reducing costs for patients—many hospitals and health systems are merging to gain scale, reduce costs, improve their negotiating power with payers and suppliers, and gain the ability to invest in new technologies and services.

Technology, Media, and Telecommunications (TMT)



Despite a decline in tech stock performance—which has led some tech companies to consider leaving public markets via go-private transactions, according to a report by Morgan Stanley—72% of tech CEOs have expressed their intention to pursue M&A this year. Many corporations are interested in entering the current buyer-friendly environment to acquire new tech capabilities and strengthen their business offering.

The tech sector is currently going through a sharp downturn, with mass layoffs, hiring freezes, a collapse in IPOs, a bear market in tech stocks, and a sharp drop in venture-capital funding. This is due in part to the Fed's hiking up interest rates in an effort to curb inflation, and in part to the waning of a pandemic emergency during which most tech companies experienced an unprecedented boom. Still, this sector is extremely innovative and resilient, and there are multiple signals, like the rise in artificial intelligence (AI) and the Fed cooling down pricing hikes, pointing to a tech resurgence in the near future. With current lower valuations, investors are seeing a unique opportunity to enter the market right now.

While megadeals are likely to decline due to the riskier environment, overall deal amounts will increase as the desire for profitability overrides the desire for growth. The most promising tech subsector this year is software—in 2022, it accounted for 71% of deal activity and 74% of deal values—

with metaverse, telecom, and video games trailing closely behind as areas of opportunity.

Generally, defensible sectors like cybersecurity, regulatory technology, government IT, and healthcare software are likely to keep attracting M&A interest, on account of their pertinence in today's political and macroeconomic landscape.

Energy

Document Trend

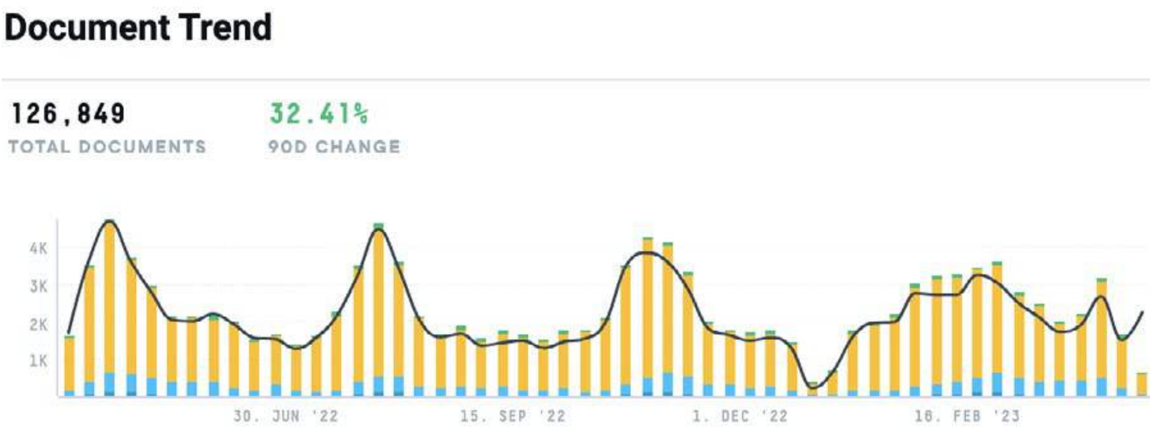
In 2022, energy prices skyrocketed due to several macroeconomic factors—Russia's invasion of Ukraine, OPEC+ cutbacks, and inflation. Now, energy companies find themselves with an abundance of capital and many are seeking to deploy it either via acquisitions or returns to shareholders.

The energy transition remains a big area of concern for energy companies, and many will be turning to M&A to boost their competitive advantage and position themselves as leaders in this trend, according to Morgan Stanley. Additionally, ESG remains a priority for energy companies, with many turning to M&A as a means of improving their ESG practices through new capabilities like carbon capture.

ESG remains a priority for energy companies, with many turning to M&A as a means of improving their ESG practices.

In today's environment, mid-size energy companies need scale to compete with larger peers, amplifying M&A as an attractive means of getting there.

Industrial, Manufacturing & Automotive



M&A is expected to stay steady in this sector throughout the rest of 2023, despite the persistent uncertainty and fallback from past years' supply chain issues.

The COVID-19 production shutdowns, followed by the 2022 semiconductor shortage, dealt a heavy blow to the industry. These challenges only further illustrate the need to build more resilient supply chains, and company leaders today are looking for ways to domesticate the supply of critical components and lessen their reliance on cross-border suppliers. Hence, M&A remains an appealing strategy in doing so.

At the same time, renewable energy and the energy transition are just as much of a focus for many industrial companies as they are for energy companies. Consequently, many companies in the commercial space are expected to ramp up R&D efforts, as they strive to meet their goal of net-zero carbon emissions by 2050—only increasing interest in M&A as a means of doing so.

M&A is expected to stay steady in this sector throughout the rest of 2023.

In the automotive sector, new emerging technologies and the ongoing transition to electric vehicles are facilitating a hyper-competitive environment, and CEOs are looking to M&A as a way to maintain an edge over competitors.

Financial Services

Banking and capital markets M&A activity was hard hit by the rising inflation, interest rate hikes, and overall economic uncertainty of 2022. Additionally, there has been increased regulatory scrutiny on M&A activity by large banks. As a result, many banks, PE firms, wealth and investment managers, and fintechs have halted M&A activity until interest rates stabilize and regulatory activity subsides.

However, for bold and risk-savvy financial institutions, 2023 could be the perfect time to focus on M&A—lower activity means lower prices, and many fintech companies are more reasonably priced than ever before. Digital transformation remains top of mind for financial institutions—with disruptive fintech companies setting the pace for rapid technological change, banks are eager to keep up. Just as tech remains a profitable and opportunity-rich space in a downturn, fintech follows a similar pattern.

For bold and risk-savvy financial institutions, 2023 could be the perfect time to focus on M&A.

Private equity firms are now more specialized in industries and sub-sectors, and as such, are more confident investing consistently through the ups and downs of the business cycle. PE funds currently have a record amount of uninvested capital, making them more eager to bring more companies to market.

ESG is also playing an important role for PE investors, who are increasingly relying on pre-deal ESG due diligence in M&A dealmaking. The idea here is that the more prescriptive

investors are in their approach to ESG, the better they can manage risk and derive value from investments.

The recent collapse of Silicon Valley Bank will likely drive an increase in tech-focused corporate M&A due to the heightened pressure on venture capital investing that has left many tech startups financially vulnerable. As the startup market becomes increasingly more saturated, there is also a transition away from rapid short-term investment strategies and toward a more conservative long-term approach. Venture capitalists want to invest in companies that have a proven track record of profitability and investing their funds wisely.

CHAPTER 3

Global M&A Trends

United States

The US M&A market was heavily affected by several key headwinds in 2022—increased scrutiny from regulators, rising interest rates, global tensions, and stock market volatility. While these factors persist, 2023 is proving to be a productive year for M&A. As the need for speed continues to drive business transformation, M&A is an appealing option for accelerating business growth.

Additionally, capital discipline is expected to be a prime factor in 2023 deals, as valuations decrease and divestitures create an opportunity to generate better returns. Companies will likely be shifting their capital focus to transformation and strategic growth, while cutting costs in nonstrategic business units.

C-suite leaders are much more apt to consider transformative deals that will truly propel their business forward at a rapid clip, rather than slow burn deals that will take a while to bear fruit.

United Kingdom

Like much of the world, the UK is dealing with a number of headwinds that have persisted since 2022, among which are high inflation, macroeconomic instability, strikes and a potential recession, geopolitical risk in Europe, and regulatory uncertainty.

While M&A activity is expected to be relatively mute this year, there are still opportunities for those with readily available cash who wish to take advantage of lower valuations. Like the rest of the world, there is a tremendous focus on digital transformation and innovation, as well as decarbonization.

Tech, energy and renewables, healthcare, and mining industries are expected to see the greatest M&A activity in the UK this year. Since these industries will likely benefit from inflation and high interest rates, they are more primed to attract interest from bidders in the medium term.

Tech, energy and renewables, healthcare, and mining industries are expected to see the greatest M&A activity in the UK this year.

Canada

Canada is continuing to deal with the residual challenges of 2022—inflation, rising interest rates, the Russia-Ukraine War, a lack of stability in commodity prices, and the looming potential of a recession.

Additionally, the banking crisis that was kicked off by the collapse of Silicon Valley Bank has tightened credit markets, making funding difficult for deals and creating a more cautious attitude around M&A. Still, bankers are optimistic that the second half of 2023 will see a return to stability and enthusiasm for M&A.

M&A activity is expected to be particularly positive in certain sectors, including technology and software, renewable energy, mining, and healthcare. The most prevalent themes driving interest in these sectors are decarbonization targets set by the Canadian government and a continued drive for digital transformation and efficiency across industries.

Japan

After focusing heavily on transformative M&A in 2021, Japan has slowed down its M&A activity and appears to be in the planning stages of forthcoming deals. ESG continues to be a major focus—on January 31, 2023, the FSA implemented an amendment to the Cabinet Ordinance, requiring the disclosure of information on sustainability, human resources, diversity, and climate change.

Additionally, sectors such as software, IT, and tech-enabled services have become increasingly more pertinent for various industries pursuing digital transformation—and consequently, cross-industry dealmaking is becoming more commonplace.

Peter Armstrong, a partner at DLA Piper, predicts favorability for opportunities that address energy and economic security and believes they will make up the majority of domestic M&A activity, particularly technology, supply chain consolidation, and energy transactions. Japan is heavily committed to the energy transition, so significant investments are expected in the areas of hydrogen test projects and offshore wind.

Japan is heavily committed to the energy transition, so significant investments are expected in the areas of hydrogen test projects and offshore wind.

China

In the face of macroeconomic uncertainty and regulatory risks, China's M&A fell to its lowest level since 2014. With exceptionally soft conditions for deal processes continuing, the decline is expected to persist in the first half of 2023. But despite a hard start to the year, a gradual recovery is highly likely in 2H23. This is due to China reopening its borders and releasing pent-up investment demand, as well as Beijing easing control over the private sector.

Like most other nations, China is eager to upgrade its technology across various industries, and with the US tech ban expanding, China's tech companies are keen on reducing import dependency. This is becoming a selling point for many domestic startups, as domestic M&A deals are expected to outperform cross-border deals this year due to persisting macroeconomic challenges and regulatory scrutiny.

Latin America (LATAM)

The M&A landscape in Latin America is heavily influenced by both domestic and international macroeconomic events. For example, Brazil saw a slowdown in deals in 2022 that is set to continue well into 2023 as a result of their polarizing presidential election. Even so, Brazil is still the most important M&A market in Latin America, due to its diversified economy, strong financial system, large consumer market, and solid business opportunities—positioning it well to attract investor attention in sectors most affected by digital transformation.

Emerging markets in LATAM are deeply impacted by the current slowdown in China.

Emerging markets in LATAM are also deeply impacted by the current slowdown in China, driving additional M&A opportunities in the region as investors seek to reallocate funds.

Ana Toral, a correspondent for Chile and Ecuador at Mergermarket, says: "The rising cost of capital combined with recession fears, inflation woes, and regional political uncertainty has led dealmakers to become more cautious and prioritize investments in companies that have sought to increase their profitability, a trend that is likely to remain in place in 2023 in Latin America."

India

Of all the regions discussed in this article, India has one of the most bountiful M&A landscapes this year. Even while dealmaking dropped off in other regions in 2022, M&A deal volume and value reached historic highs in India. The main factors behind this surplus are: corporate balance sheets are solid, private equity has ample dry powder to deploy, India has become a global hotspot for non-US capital, and conglomerates are increasingly turning to M&A to win future profit pools.

The forward momentum of M&A activity is slated to continue in India well into 2023, with global markets standing at the ready to double down on India as an attractive long-term opportunity. Yet, one uncertainty remains around interest rates: India has already raised its rates, but if it continues to increase them, M&A activity could see a noticeable decline.

As in most other regions, the energy transition and "green investing" are ushering in plenty of new M&A opportunities. Also, companies are increasingly pursuing "scope deals" as opposed to "scale deals", shifting the focus onto building out new capabilities and value drivers instead of simply expanding revenue in the core. This, combined with an increased number of first-time acquirers, raises the bar for companies and investors to get their M&A strategy just right—which includes advantaged sourcing, transaction excellence, and integration/value capture.

Middle East

Like India, the Middle East is one of the few regions that actually experienced an uptick in M&A activity due to the macroeconomic events of 2022, as oil exporting countries benefited from recovery in oil prices post-COVID and the Russia-Ukraine War.

Like India, the Middle East is one of the few regions that actually experienced an uptick in M&A activity due to the macroeconomic events of 2022.

This year, M&A activity is expected to continue growing at a steady pace. The United Arab Emirates and Saudi Arabia are both expected to see high levels of M&A activity. These two nations' governments took measures to liberalize foreign investments as part of an effort to diversify their oil-based economies.

ESG is becoming an increasing focal point in dealmaking for this region, particularly as many governments are taking steps to diversify local economies away from hydrocarbons. As these corporations remain eager to stay on the leading edge in terms of technological advancements, the TMT sector has become a lucrative hotspot for M&A activity—with cybersecurity, cloud computing, and e-commerce emerging as increasingly attractive areas for investments.

The energy, mining, and utilities (EMU) sector, a classic area of interest for this region, is still operating business-as-usual in regards to dealmaking, according to M&A practitioners.

M&A Outlook in 2023 and Beyond

So far 2023 has been a year of opportunity for companies with adequate capital, healthy balance sheets, and strong strategic vision—and this doesn't appear to be slowing down.

The biggest M&A focus will be on the renewable energy space and meeting energy transition targets. According to Patrice Viaene, Counsel in the M&A Infrastructure Team of Clifford Chance: "Investment will be driven by a desire to capitalize on emerging technologies that could have global applications as we strive to become carbon neutral."

ESG will continue to play a massive role in worldwide and industry-wide dealmaking. Corporations will be looking to M&A as a way of amping up their ESG scores, especially as investors scrutinize businesses on their commitments.

Digital transformation will continue to remain front and center in most corporations' and investors' minds around the world. AI and machine learning markets are expected to be particularly popular—with generative AI taking the world by storm. Dealmakers are racing to stay on the leading edge of this new trend, as it has the power to move markets. M&A is a particularly effective means of acquiring new technology and talent to fuel this digital transformation. Corporations are particularly likely to seek out opportunities to invest in targets in the cybersecurity, cloud computing, and AI spaces.

Finally, despite US intentions to domesticate supply chains, cross-border M&A activity is likely to rise again globally after diminishing in 2022, Morgan Stanley analysts predict. Most companies are seeking to fortify global supply chains, though China and Japan are likely to remain focused domestically. Even still, dealmakers will be prioritizing stability and risk management in these cross-border deals, pursuing targets in geographically close areas and favoring developed nations.

AlphaSense

Stay On Top of the Evolving M&A Landscape With AlphaSense

In the fast-changing world of M&A, staying informed on macroeconomic events and market-moving trends is crucial in making confident, well-informed decisions and maintaining the competitive edge.

AlphaSense's extensive content universe, coupled with our proprietary AI search technology, makes it easy for you to keep abreast of industry, market, and company developments on a global scale. Speed up time to insight, streamline your research workflow, and uncover new opportunities with AlphaSense.

LEARN MORE AT ALPHA-SENSE.COM