# M&A Outlook 2024

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A myriad of geopolitical uncertainties, a demanding regulatory environment and macroeconomic forces, including persistently high inflation, rising interest rates and concerns of potential recession, weighed heavily on dealmaking last year. Unrest in Ukraine and the Middle East, combined with an ensuing increase in energy prices, have further hampered European businesses. Given the over-aggressive monetary policies followed by central bankers around the world, the financing and the syndication markets have also remained subdued. Simultaneously, now that the multi-billion stabilisation measures relating to the COVID-19 pandemic have been substantially cut back, the number of restructurings, distressed financings and M&A transactions could increase because many companies need to increase liquidity and reduce debt. As financing has become more expensive, companies that were hit hard by the pandemic restrictions, and do not (yet) have a business model that fits in the post-COVID-19 era, are likely to suffer most. In addition, greater volatility in financial markets, the large debt burden of many states and higher financing costs are expected to increase the number of restructurings as well as insolvencies, even of companies not substantially affected by the pandemic. These factors, seen in 2023, will continue to weigh on activity levels in 2024.

Carve-outs are expected to remain important levers for companies since circumstances have not reduced their need to transform themselves. This is particularly true for much of the industrial sector in Germany, especially chemical and automotive companies which are struggling to get back to pre-pandemic level margins. The automotive sector also has to manage the transformation from petrol and diesel to electric engines, along with intensifying competition from their US and Asian-based peers.

For sponsors, public markets are likely to continue to provide an attractive hunting ground for deals this year. While actively participating as bidders in auction processes, sponsors have been cautious and selective, focusing on sectors where they have strong expertise given the reduced availability of leverage. The technology sector has been their primary focus. This has been driven by an expectation that demand would broaden out to other sectors, such as healthcare and business services, with investors being more likely to place greater weight on a target's underlying fundamentals regardless of the industry. Sponsors have also shown a greater appetite for co-invests and minority investments than before, with significant transaction activity set to continue in these investment structures in the medium term.

Corporates that have strong balance sheets are expected to play a pivotal role in driving deal activity. We are likely to see more Private Equity exits with sales being made to strategic buyers. M&A is now a more important growth driver than in the recent past, and business leaders are using it as a key tool to help them reposition their businesses for future growth. On the other hand, lower valuations make corporate separations more likely—especially for high-value assets trapped inside larger corporates. Companies that have a valuation overhang from mis-priced assets within their portfolio will seek to spin off, or sell parts of their business to unlock overall value for shareholders.

Challenging macroeconomic conditions in 2024 are expected to further test the resilience of the M&A market: we expect that dealmakers will act more cautiously before new trends become more discernible. They are scrutinising business models closely and, above all, relying on experienced partners with a track record in project development. Nevertheless, we also anticipate that the market will stabilise. We can certainly imagine that this year will deliver a number of exciting transactions, a growing trend of focussing on the core business, and an increase in spin-offs of business areas.

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