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Deal Drivers:
Americas 2024 Outlook

Mergermarket

Outlook for 2024

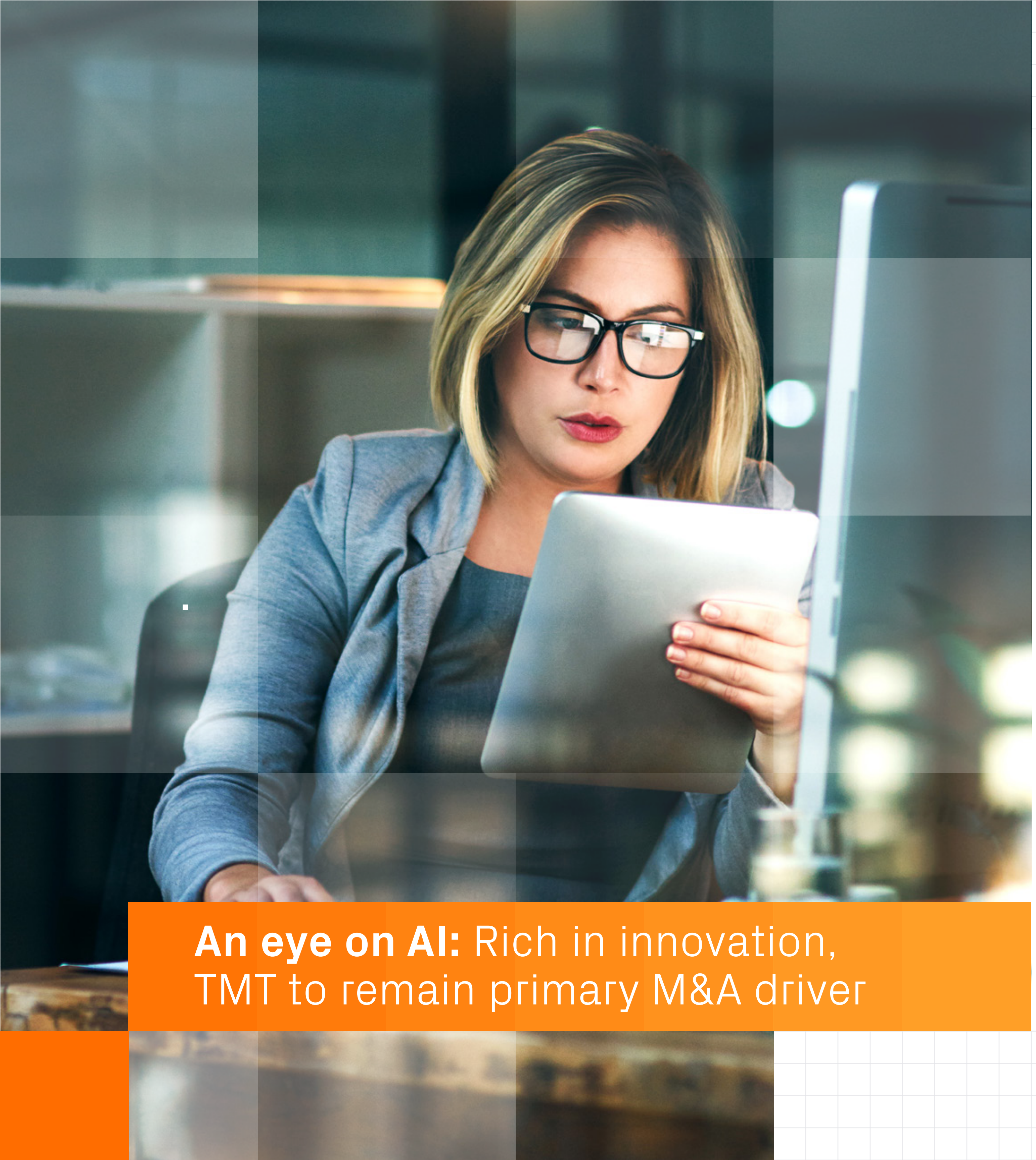
Having taken its medicine, the market is ready for action.

M&A markets in the Americas have largely withstood the burden of sharply elevated interest rates. Deal value and volume are both down on the year as a whole, but on a quarterly basis the total sum of invested capital has been moving up since Q1 2023.

Investors are torn between the Federal Reserve either trimming rates in the near future or coping with “higher for longer”. In any case, it appears the Fed’s hard work on inflation has already been done, albeit that sentiment has not yet turned to full-blown bullishness. But there is a hint of optimism in the air: data published recently by CME Group showed that investors believe there is a 60% likelihood of a rate cut by as soon as May 2024. That would be a welcomed relief for dealmakers, who are sizing up assets in hotspot sectors.

	Brazil	Canada	Western US	Midwestern US	Southern US	Northeastern US	Latin America & Caribbean	TOTAL
TMT	60	27	173	94	177	208	58	797
Pharma, medical & biotech	7	6	105	70	105	138	7	438
Business services	42	9	46	21	47	59	33	257
Industrials & chemicals	11	11	49	36	47	62	10	226
Financial services	11	4	36	22	44	69	25	211
Consumer	15	17	37	30	26	43	15	183
Energy, mining & utilities	35	13	13	9	18	15	19	122
Leisure	4	4	17	3	8	9	5	50
Construction	4	1	8	6	10	4	2	35
Transportation	3	7	5	5	4	5	4	33
Defense	1		6	1	5	2		15
Real estate	1	3	2	1	1	1	2	11
Agriculture	1		2		1		5	9
TOTAL	195	102	499	298	493	645	221	2,387

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between July 1, 2023 to November 21, 2023. Opportunities are captured according to the dominant geography and sector of the potential target company.



An eye on AI: Rich in innovation, TMT to remain primary M&A driver

1 TMT reset

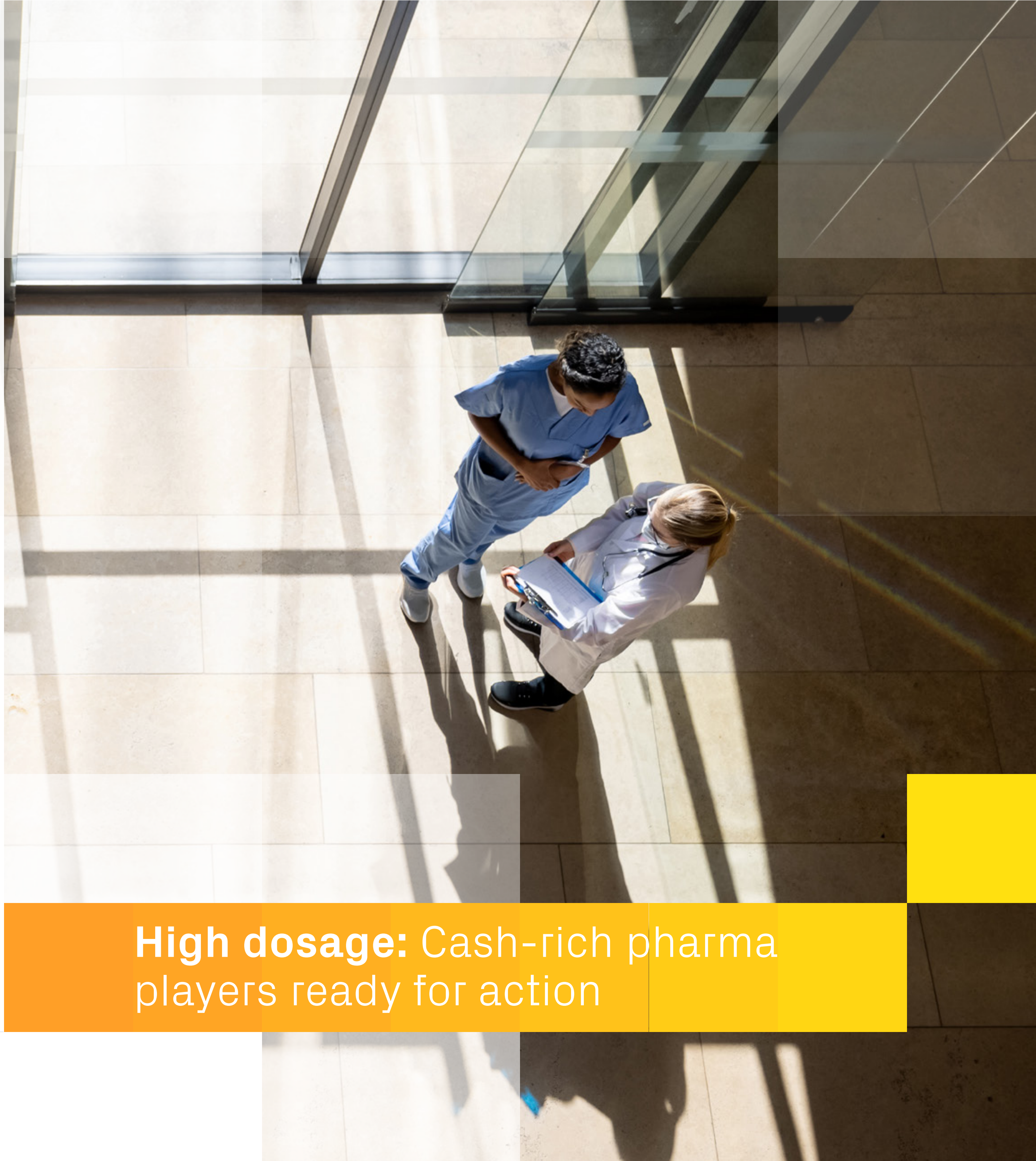
It wasn’t long ago that technology assets were persona non grata. Unprofitable, unproven business models and higher costs of capital mix like oil and water. And then along came artificial intelligence (AI). The arrival of generative AI over the past 12 months captured the imagination of the public and investors alike. Even the much-publicized non-firing of OpenAI CEO Sam Altman in November has done little to quell risk appetites. In reality, AI is just the latest layer in the tech stack that maintains the long-running narrative of delivering leaner, more efficient companies.

In every single geographic market in the Americas the broader technology, media, & telecoms (TMT) sector is poised to surpass all other industries in deal volume in the near term. From June to late November, there were 797 stories of potential deals involving targets in the sector, accounting for 33% of all deal-related coverage. Out in front is the Northeastern US with 208 such stories, though the Southern US and Western US are not far behind with 177 and 173 TMT reports each.

2 Special treatment

A confluence of factors is bringing big pharma to the negotiating table to strike new deals. With financing costs so high and shareholders advocating for sharper strategic focus, corporates are making sizable divestitures to raise cash. For instance, Johnson & Johnson spun off its consumer division, Kenvue, in August for these reasons, stacking its potential M&A war chest with US$13.2bn from the divestment. Simultaneously, biotech valuations have declined markedly over the past two years, and scores of these companies are reaching a stage of drug development maturity that makes them credible deal targets.

The pharmaceuticals, medical & biotech (PMB) sector is second only to TMT for expected near-term M&A activity. There were 438 for-sale stories associated with targets in the space, and 138 of these assets are headquartered in the Northeastern US, while the Southern US and Western US generated 105 PMB deal reports apiece. Overall, the sector is responsible for more than 18% of deal coverage across industries.

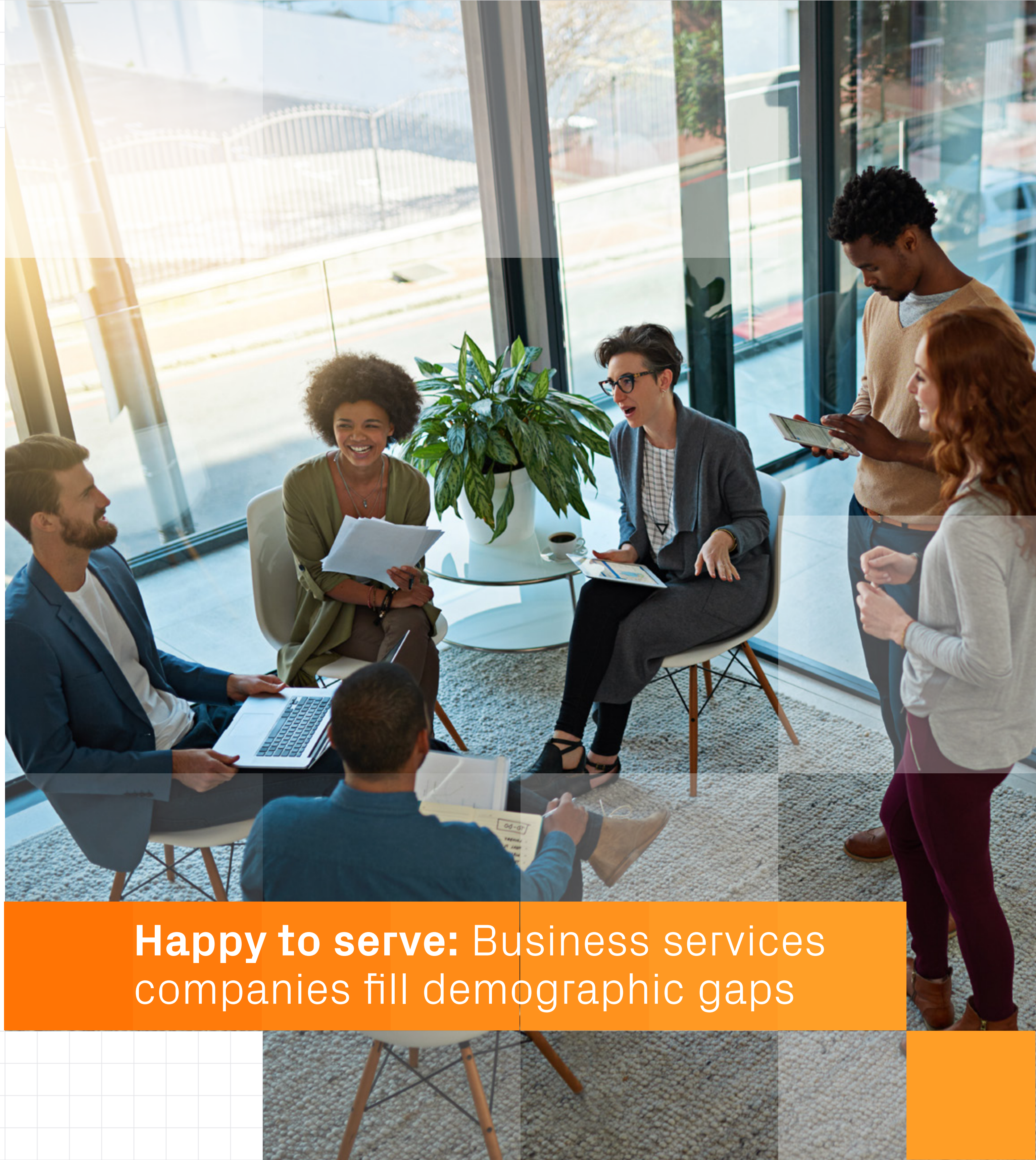


High dosage: Cash-rich pharma players ready for action

3 Serving labor shortages

Edging into third place is the business services sector with 257 deal reports, just ahead of industrials and chemicals (226) and financial services (211). Big-ticket plays were few and far between in 2023, with not a single deal in the sector making it into the top 20 M&As of the year in the region. However, business services companies continue to make for a compelling investment case.

The industry's heavy reliance on skilled human capital is a critical asset amid a worker shortage that shows no signs of easing in developed economies light of positive demographic trends. Companies rich in experienced and capable employees are increasingly valued for their ability to enhance operational workflows and improve business efficiency. Service-centric models that deliver measurable value for clients make assets in this space highly attractive at a time of labor scarcity.



Happy to serve: Business services companies fill demographic gaps

Northeast nexus: Subregion second to none in talent, economic diversity, and education hubs

4 Eastern promises

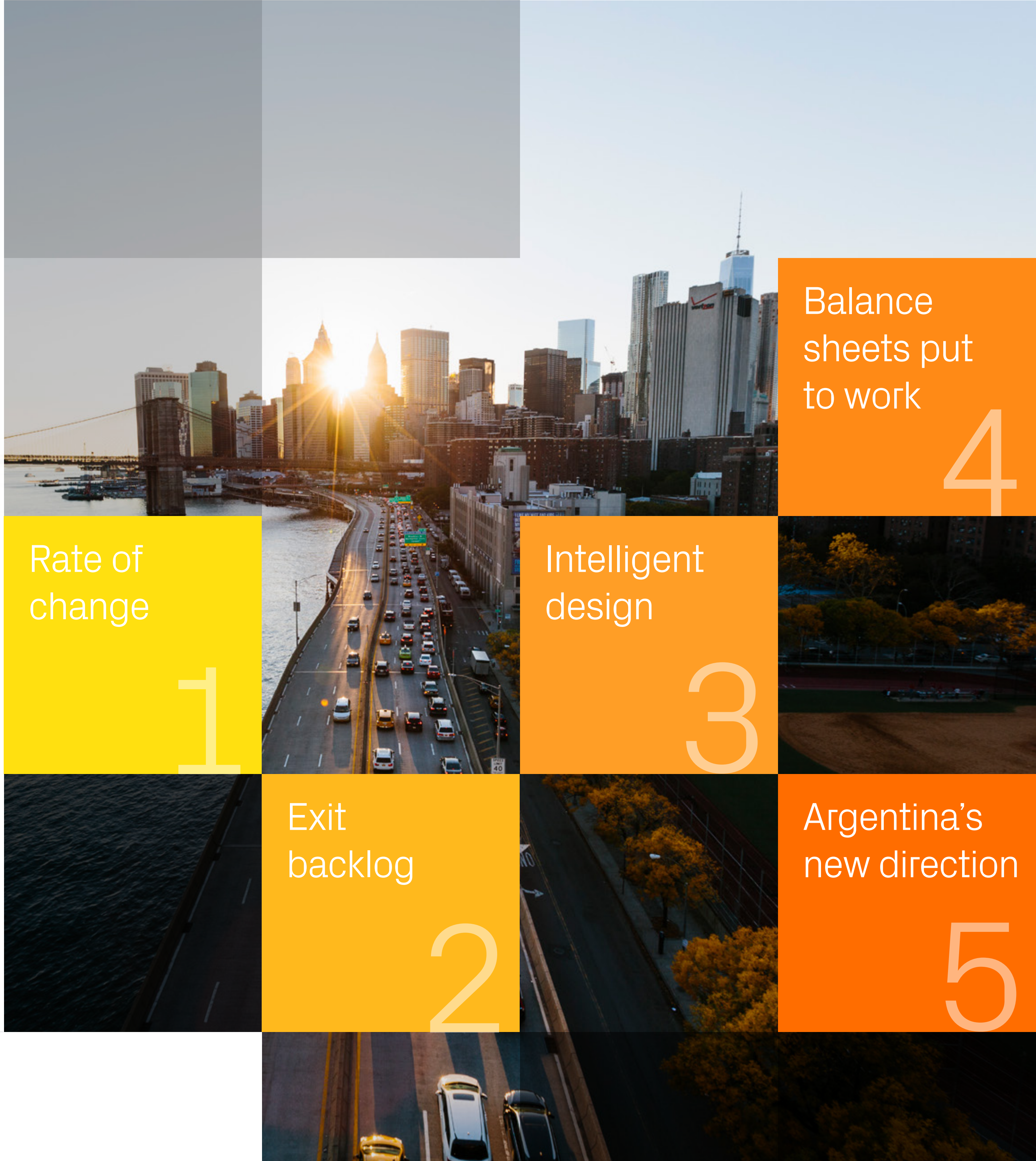
The Northeastern US is poised to be the most active M&A market in the coming months. The region saw 615 for-sale stories, or 26% of all deal reportage. It is no coincidence that TMT and PMB are expected to be two of the most prodigious sectors for deals in the broader Americas region.

New York's technology scene is asserting itself and investors are scanning the area for opportunities. Venture capital pioneer Sequoia Capital opened an office in NYC's Union Square tech hub in July 2023, its first base outside of Silicon Valley, as the city increasingly rivals traditional hotbeds like San Francisco. Meanwhile MedCity in the Boston area is the epicenter of the country's pharma and biotech industries. To be sure, Northeastern US presents one of deepest asset pools around.

Trends for 2024

Regional M&A got up off the mat after chilling start to 2023.

Mergermarket data show that aggregate M&A deal value in the Americas bottomed out in Q1 and gradually rose over the following two quarters. Assuming no black swan scenarios knock things off course, this newfound momentum will carry through into 2024. Should the Fed gradually loosen monetary policy, this will improve borrowing conditions and ease the glaring backlog of private equity exits. AI and other emergent technologies will motivate dealmakers to retool their portfolios and strategically reposition themselves to secure a competitive edge. And while not the most obvious destination for deals, given its seemingly unbreakable hyperinflation, Argentina's new political direction has been warmly welcomed so far, putting the market back on investors' radars.



1 Rate of change

A core reason for deal activity showing tentative signs of a recovery is that buyer-seller price expectations have found common ground. Elevated interest rates, however, continue to cause friction and oblige acquirers to bring rock-solid investment theses to the table, perform comprehensive due diligence, and put up supplementary cash for transactions. In the event of a rate cut by the Fed in 2024, as many are now expecting, the US M&A market could see a significant boost. Lower interest rates would reduce the cost of borrowing, making acquisition financing more accessible and appealing. Any easing of borrowing conditions would therefore spur an uptick in dealmaking, particularly among private equity firms eager to deploy their stores of dry powder. This is undoubtedly the biggest variable on which investors are keeping a watchful eye. The biggest caveat here is whether rate normalization comes because it is due, or the Fed's hand is forced because macroeconomic and market conditions sharply deteriorate.

2 Exit backlog

One of the greatest effects of recent tight monetary conditions is the conspicuous lack of exits among financial sponsors. At times in 2023, the entry-to-exit ratio in the US stood at around 2:1, as firms invested capital at twice the rate than they divested. PE funds must clear this backlog in order to return cash to investors and secure their future. This phenomenon will deliver a steady supply of deals from sponsors needing to keep their investors onside by delivering liquidity events and distributions. This will be highly dependent on what happens to borrowing rates. PE funds are highly reliant on each other, secondary buyouts being a major source of exits. As rates fall, sponsors will become more acquisitive and look to their peers' portfolios for deals.

Clock is ticking: Exit volume must rise to free up capital for returns and further investment

3 Intelligent design

The technology sector is primed to put new winds in its sails. Nvidia's share price surged in 2023 as generative AI became a reality and investors charted the forward-looking demand for graphics processing units required to power large language models. Technologies that are expected to see S-curve adoption over the next decade will drive capital reallocation decisions among investors. AI is the big one on everybody's minds, but this trend extends to green technologies and even cryptocurrency-related tech, which is now seeing strong institutional interest, with traditional finance mainstays like Morgan Stanley tokenizing real-world assets and global custodians such as BNY Mellon preparing for this paradigm shift. In many cases, M&A will be the simplest solution for repositioning in this brave new world, while financially motivated sponsors will capitalize on the new tech era.

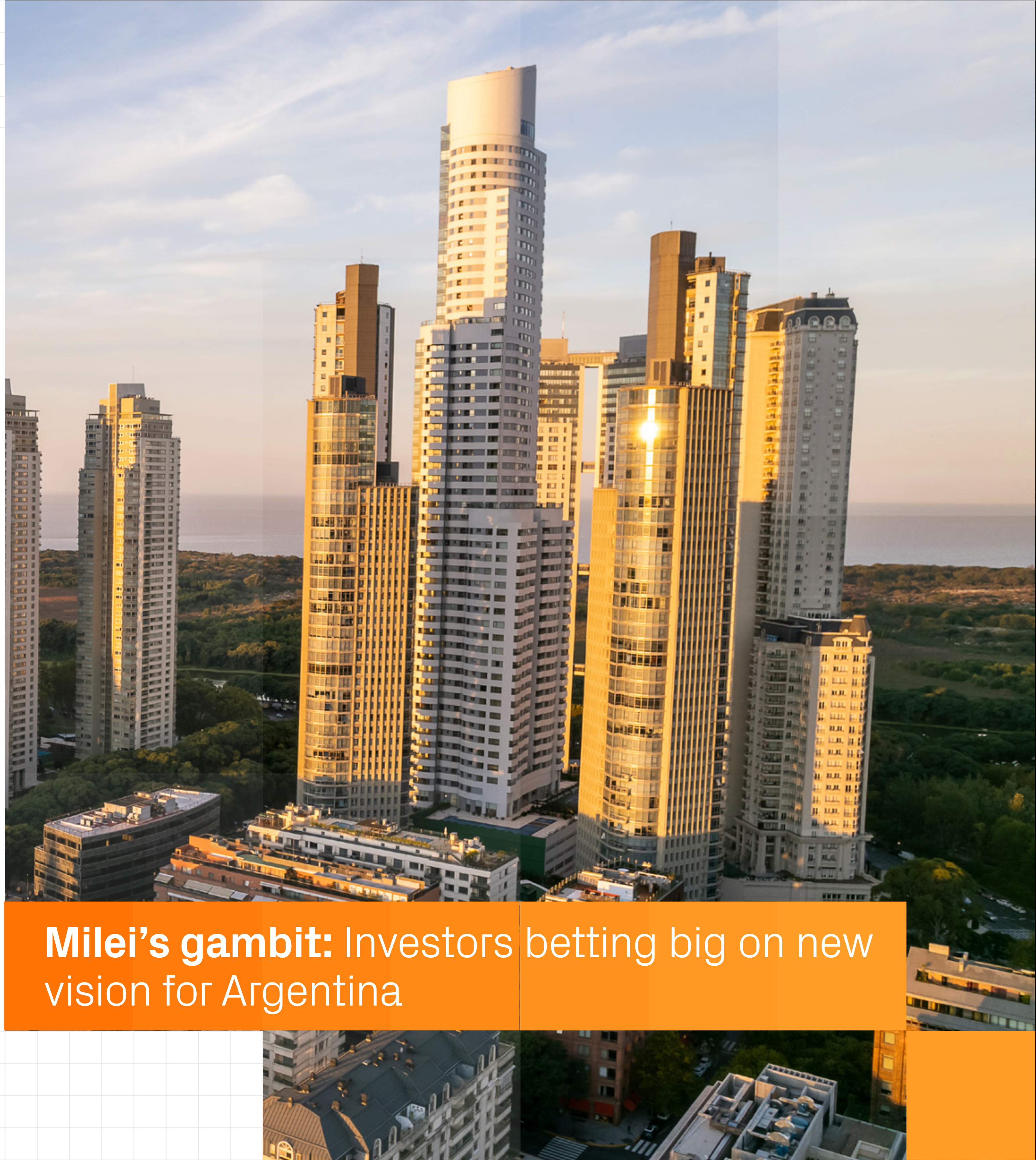
The future is now: From AI to crypto, there's no shortage of tech innovation to drive M&A

4 Balance sheets put to work

In the US, median corporate cash ratios, a key measure of liquidity that divides cash and equivalents by current liabilities, declined to 18% in Q3 2023 from 19.5% just before the pandemic, according to S&P Global Market Intelligence. But the picture is more nuanced than this. In sectors like consumer staples, energy, real estate, communication services, and utilities, ratios are in fact above pre-pandemic levels. Technology firms stand out for holding bumper cash reserves. For instance, Apple holds nearly US$170bn in liquid assets and Alphabet has some US$150bn at its disposal. As much as US$1tn is sitting on the balance sheets of just 13 non-financial S&P 500 companies. That's a lot of firepower that can be put to use for the right opportunities.

5 Argentina's new direction

Coming somewhat out of left field, Argentina may be a new M&A frontier. Javier Milei, president-elect and libertarian economist, has grand plans to put the country back on its feet, including an ambitious privatization program. While it remains to be seen whether those ambitions manifest in actioned results, investor sentiment since the election has been clear. In November, petroleum refinery company YPF's shares soared by nearly 70% in little over a week and Argentine ETF share trading surged as investors placed their bets on Milei's vision. While Argentina's market is small and fraught with currency risks, this new political direction and the anticipated privatization drive could usher in a wave of deals for Latin American acquirers with higher risk appetites looking to assert regional dominance. This certainly won't rival Brazil or Mexico, but few expected Argentina to become a viable deal market until now.



Milei's gambit: Investors betting big on new vision for Argentina

About this report

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For a full version of the Mergermarket M&A deal database inclusion and league table criteria, go to: www.mergermarket.com/pdf/deal_criteria.pdf

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