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Deal Drivers:
AMERS 2023 Outlook

Mergermarket

Outlook for 2023

M&A value settled back down to pre-pandemic levels in 2022.

While volume was still trending above levels seen prior to COVID, there was a definite quarterly downtrend observed over the course of the year as market confidence ebbed. All eyes are now on equity markets, which are inherently forward-looking and typically front run the economy by six months or more, for signs of a possible bottoming out.

The Federal Reserve has been aggressively tackling inflation and this has made borrowing more expensive, dampening the velocity of the deal market in the US, the largest in the world, while other central banks in the Americas are on their own tightening paths. Still, there are signals of forthcoming pockets of M&A activity in sectors such as TMT and PMB in the Northeastern US, Southern US and Western US regions in particular.

	Brazil	Canada	Western US	Midwestern US	Southern US	Northeastern US	Latin America	Grand total
TMT	77	30	162	81	174	173	97	794
Pharma/Med/Biotech	10	6	100	95	130	149	13	503
Business Services	31	20	59	33	68	63	35	309
Financial Services	22	4	49	35	71	67	34	282
Industrials & Chemicals	6	16	48	42	61	59	6	238
Consumer	19	12	36	34	55	34	20	210
Energy/Mining/Utilities	33	20	27	14	47	35	18	194
Leisure	14	1	15	4	7	10	4	55
Transportation	4	3	3	4	8	5	10	37
Defense			2		13	2		17
Agriculture	5	2	2	2	11	1		16
Real Estate	4	1	3		2	1	2	13
Construction	6			1	1	1		9
Total	231	115	506	345	638	600	242	2677

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between June 1, 2022 to November 25, 2022. Opportunities are captured according to the dominant geography and sector of the potential target company.

1 TMT down but not out

In every region in the Americas, notwithstanding the Midwestern US, the technology, media and telecommunications (TMT) sector is on course to deliver more deals than any other industry. There were 794 stories involving TMT targets, or 30% of all deal reportage between June and late November. This would be the continuation of a theme – the sector has dominated dealmaking in the Americas in most quarters over the past several years.

TMT continues to benefit from a confluence of tailwinds that span market disruption, the digitalization of operations and rising automation, increasing cybersecurity requirements, and the mass shift towards media streaming. Although technology companies in particular have seen their valuations crater over the course of 2022 in response to higher rates and this is music to acquirers' ears. In this more risk-averse environment, there is a major opportunity to buy companies that are driving disruptive innovation.

Tech on trend: TMT deals and assets are expected to remain on top in 2023

2 In good health

Shot in the arm: Northeastern US set to lead activity in the PMB sector

Another hotspot is the pharmaceuticals, medical and biotech (PMB) sector, a steadfast performer through good times and bad. The sector laid claim to 503 deal stories over the period, and with 149 of these reports to its name, the Northeastern US is expected to be the busiest market. This is to be expected given the region's rich pharma pedigree and cluster of related companies.

That's not to say that other markets won't deliver quality transactions. The largest of Q3 saw Pfizer, flush with cash from COVID vaccine sales, acquire San Francisco-based Global Blood Therapeutics for US$5.3bn. The deal is indicative of a corporate strategy that is prioritizing growth by developing new areas of expertise rather than focusing on cost-centric synergies.

3 At your service

Business services M&A has been on the smaller side recently, but it has delivered impressive volume and this is expected to sustain over the coming months. There were 309 deal reports involving targets in the sector, putting it in third place.

In Q3 there were 613 M&As in the sector, second only to TMT and representing one of the smallest year-on-year declines across industries. Some of the largest of these were in Latin America, such as TPB Acquisition Corporation I's US$1.1bn de-SPAC of Brazilian agricultural inputs distributor Lavoro. This company helps farmers to increase yields while using less land, water, and energy. Business services companies that enable their clients to deliver more with less in this way will be especially attractive amid slowing growth and higher input costs.

They mean business:
LATAM boasted some of the largest business services deals in Q3

4 Lure of the South

No region in the US has a more heavily stocked pipeline than the South and that includes potential TMT transactions. There were 638 deal stories involving targets in this market and 174 of these featured companies in the TMT sector. Many US businesses based in California and the New York-New Jersey area are upping sticks for the South, drawn by business-friendly state-level policies, low corporate and income tax rates and cheaper real estate. Cities like Miami and the wider southern Florida area, as well as Atlanta, Georgia, and Austin, Texas, are fast establishing themselves as productive innovation hubs, competing with the stalwart Silicon Valley. Over the coming year and beyond, this should deliver more deal activity and especially M&A with a tech flavor.

Southern comfort: Business-friendly state policies are drawing innovative companies south

Trends for 2023

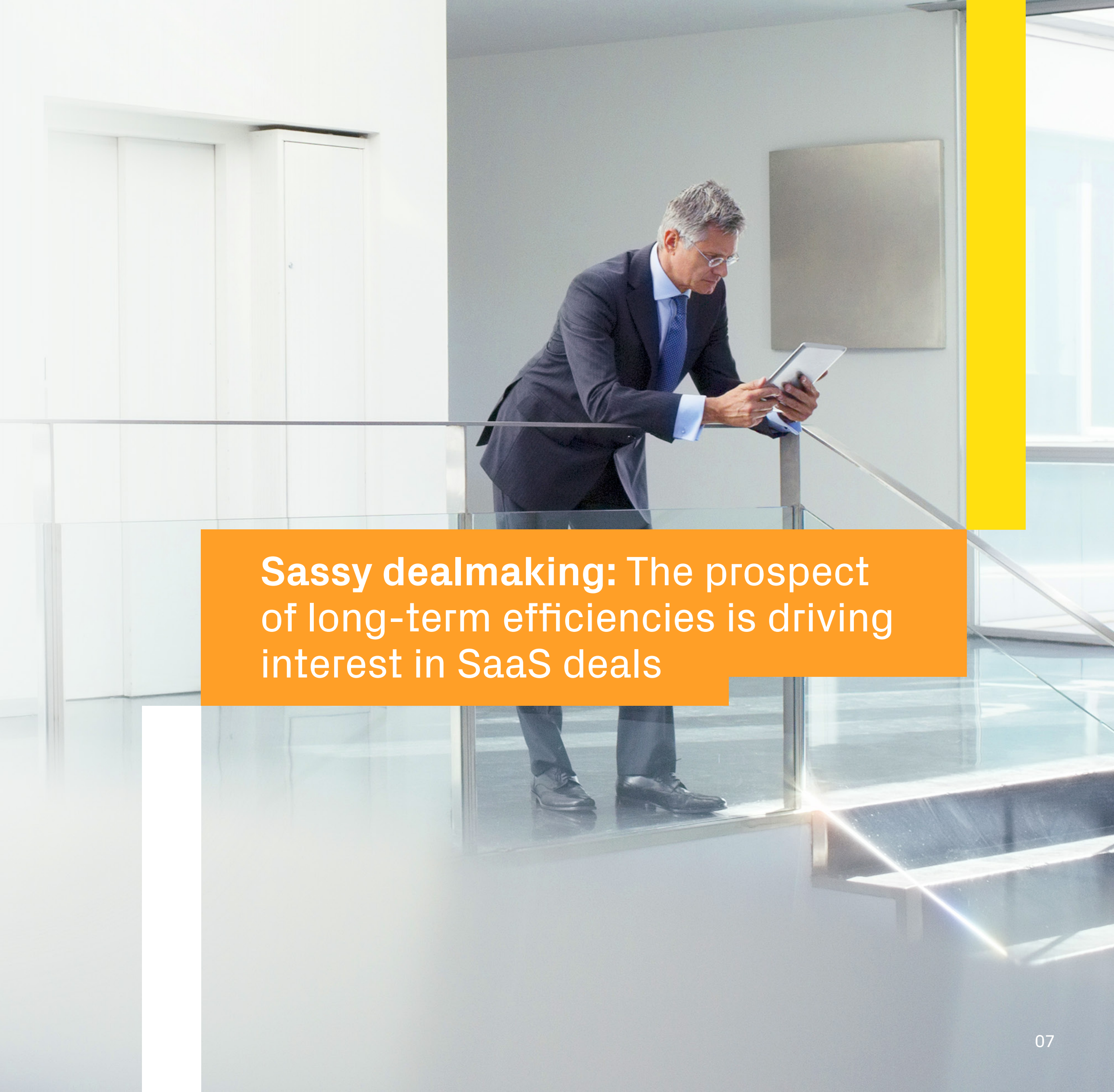
Volume trended down with each successive quarter in 2022 since peaking in Q1.

Next year should see a bottom forming. The question is how low this will be. There is potential for M&A numbers to fall below historic levels for a period as corporates in particular contend with recessionary headwinds and refocus their attention on their core business. Offsetting this, many strategics with access to capital will be looking for growth acquisitions spurred by digitalization and sector convergence, while private equity continues to benefit from historically high levels of dry powder. A new political chapter for Brazil, the third largest economy in the Americas, may also ballast confidence among foreign investors, encouraging investment.

1. Recurring digital revenues
2. Powder in numbers
3. Private tech consolidation
4. Sector convergence
5. Viva Brazil

1 Recurring digital revenues

One of the defining themes of 2022 has been the keen interest that acquirers have taken in software-as-a-service (SaaS) deals. Adobe Systems' US$20bn takeover of Figma was the largest M&A of Q3 and there were a number of notable sponsor-backed plays, including by software specialists Vista Equity Partners and Thoma Bravo. The sharp decline in tech valuations is a major catalyst for ongoing deal flow, as are the pressures that companies find themselves facing in the current inflationary, growth-deceleration environment. SaaS companies help their B2B clients to achieve efficiencies via automation and operational rationalization. They also often benefit from resilient recurring revenue streams due to the fact these software platforms become embedded into workflows, making them mission-critical tools. For this reason, software deals should continue to contribute to what is an already optimistic outlook for the TMT sector. Short-term headwinds are strong, but there is no stopping the digitalization train.



Sassy dealmaking: The prospect of long-term efficiencies is driving interest in SaaS deals

2 Powder in numbers

Private equity fundraising was down by an estimated 22% in 2022, which according to Preqin, is a sizable drop. Nevertheless, PE firms continue to swim in cash as their dealmaking pace has slowed and with their coffers replenished en masse through 2021 during the explosive seller's market. Globally, these funds are estimated to have US$1.68 trillion at their disposal across strategies and around half of that is sitting in North American funds.

PE funds rely on debt for leveraged buyouts and it’s certainly true that credit is harder to access and comes at a higher cost as interest rates have risen. This may mean that sponsors have to negotiate more on price and put in equity backstops as limited leverage forces them to recalibrate their return models. Undoubtedly 2023, as a continuation of 2022’s shift in conditions, is likely to represent one of the more challenging deal markets since the global financial crisis. However, many funds are well equipped to deploy in the year ahead.

Well-equipped equity: North American funds hold around half of all AMERS dry powder

3 Private tech consolidation

The US witnessed some truly monumental tech transactions in 2022, including Elon Musk's acquisition of Twitter and Broadcom's planned purchase of VMware. These largely played out on the public stage. In private markets, there could be a run of tech-related consolidation to come. IPO markets have slowed markedly and SPAC deals have dried up. In the short term, hopes of going public have had to be put to one side for many.

Venture capital-backed companies have been staying private for longer. Cases in point, Uber and Airbnb were in private hands for a decade and more before listing. In 2023, there will be pressure on private tech companies to shift away from a "growth at any cost" model to one that focuses on delivering profits. Cost pressures and shortening cash runways as VC funds exercise greater caution should also mean greater impetus for private tech consolidation.

Private profits:
Tech companies to stay private for longer and focus more on profits

Feeding frenzy: A challenging year may prompt more sub-sector consolidation

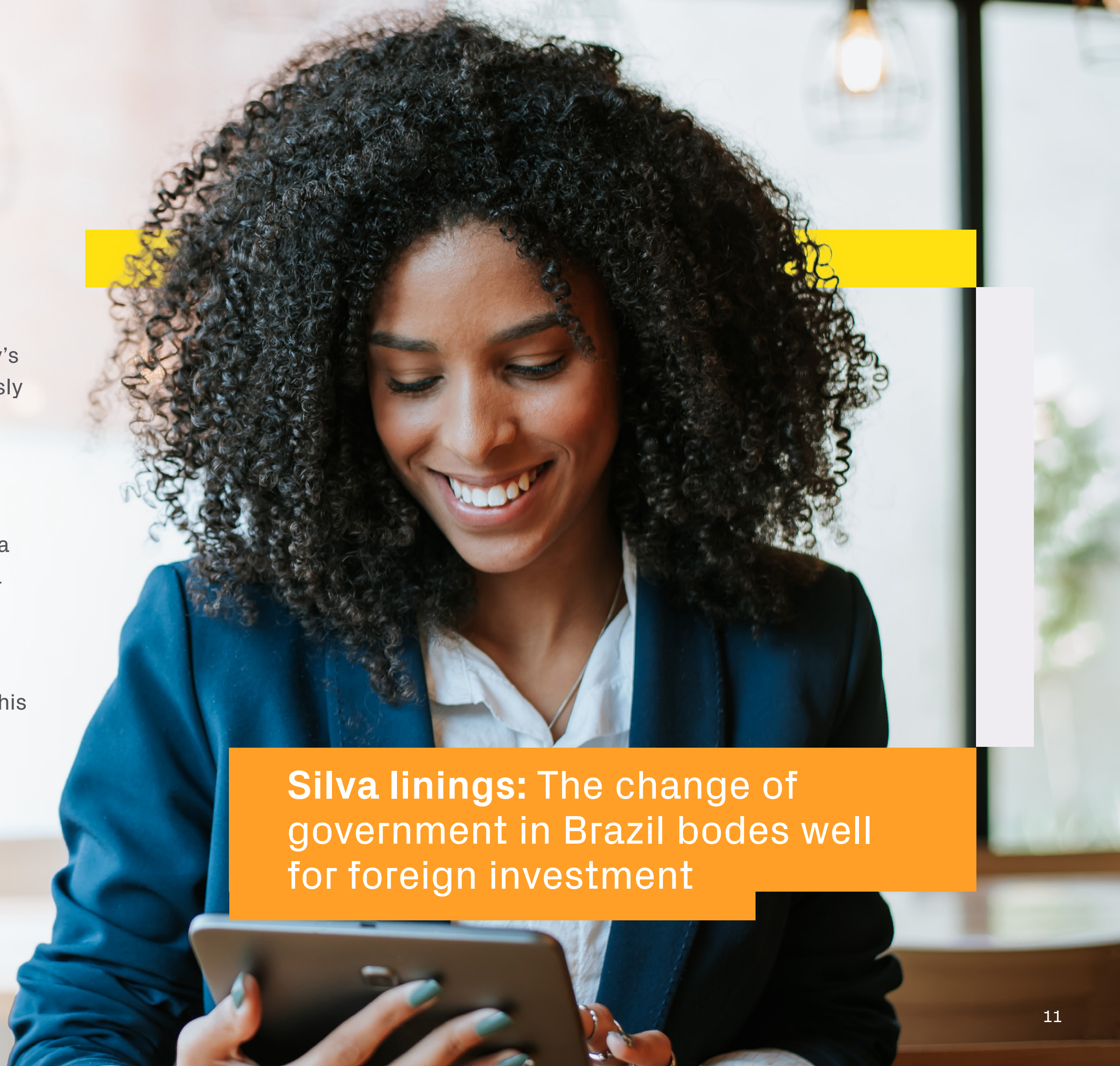
4 Sector convergence

One of the more noteworthy deals of Q3 involved Amazon paying US$3.7bn for primary-care company One Medical. It is the latest step in the e-commerce behemoth's move into the healthcare space, but the company has multiple tentacles. Its acquisition of famed movie studio MGM also closed in Q1. Then came its US$1.7 billion purchase of automated vacuum cleaner maker Roomba, also in Q3.

Elsewhere, the spectacular collapse of cryptocurrency exchange FTX in November has raised the likelihood of regulation being brought forward to protect customers, with the industry likely to see convergence with traditional finance. The same month, JP Morgan registered a trademark for a crypto wallet that would allow users to self-custody their assets away from centralized exchanges. If the following year proves to be more challenging for the economy, large corporates with healthy balance sheets may look to seize upon this opportunity to double down on their incursions into sub-sectors they have identified as high-conviction future growth paths.

5 Viva Brazil

Brazil's November election could spell opportunity for the country's M&A market. Incoming president Luiz Inácio Lula da Silva previously led the country between 2003 and 2010, during which time the country's trade surplus nearly tripled, helping to alleviate public debt and more than doubling economic growth, which funded his social programs. A left-wing leader coming to power may not obviously be business-friendly. However, Lula is contending with a very different political and fiscal picture and is expected to take a more centrist position than during his previous presidency to steady markets and the currency. As well, former president Bolsonaro's distinctly cavalier approach to ESG had turned away much foreign institutional capital from the country. A reversal of this could see more foreign deals on Brazilian soil.



Silva linings: The change of government in Brazil bodes well for foreign investment

About this report

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