2024 M&A outlook for corporate deal makers

Market conditions are improving, and the KPMG 2024 M&A Survey shows that corporate executives are increasingly confident that M&A activity will revive in 2024. Learn where and how top leaders plan to make deals this year.

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Introduction:

A 2024 M&A rebound—how big?

After two years of declining deal activity, senior executives at major U.S. corporations believe that M&A will rebound this year. "We are optimistic for a return to dealmaking in 2024," says Carole Streicher, head of Deal Advisory and Strategy at KPMG LLP. "The data shows the beginnings of an upturn in Q4'23 as U.S. deal value increased over Q3'23 across most industry sectors—and that's what we are seeing with our clients."

In our survey, two-thirds of corporate executives said they expect 2024 M&A activity to exceed the 2023 level. More than three-quarters said they would do at least one M&A deal in 2024, with nearly 45 percent targeting deals greater than $1 billion in value. More than three-quarters said they are likely to make a deal before mid-year 2024 (including deals during Q4'23). PE investors are more likely to start dealing again in the second half, when they expect interest rates to begin to fall. This might give corporates a chance to acquire assets before PE investors fully return.

Key take-aways

- Executives expect overall deal activity to increase in 2024.
- The top reason corporate acquirers cite for making deals is to support long-term strategic value and growth.
- Companies also plan to buy assets that can accelerate transformation and focus on the core, including acquiring tech companies.
- A key factor impacting corporate M&A is the bid/ask disconnect between buyers and sellers.
- Stricter regulatory oversight was cited by 45 percent of corporate decisions makers as an obstacle to closing deals.
- Less than 5 percent of corporate leaders believe the presidential election and potential tax policy changes would limit M&A activity; 61 percent say it could increase deal-making appetite before November.
- 92 percent of companies say they are using generative AI in M&A processes or plan to start doing so in 2024.

Methodology:

KPMG LLP surveyed 150 corporate executives of U.S.-based companies and 50 managers of U.S.-based PE funds in Q4'23. For the purposes of this paper, we focus on responses from corporate executives. The survey included multiple choice questions that allowed executives to give several answers to the questions. As a result, many of the responses add up to more than 100 percent.

The case for optimism in 2024: weakening headwinds

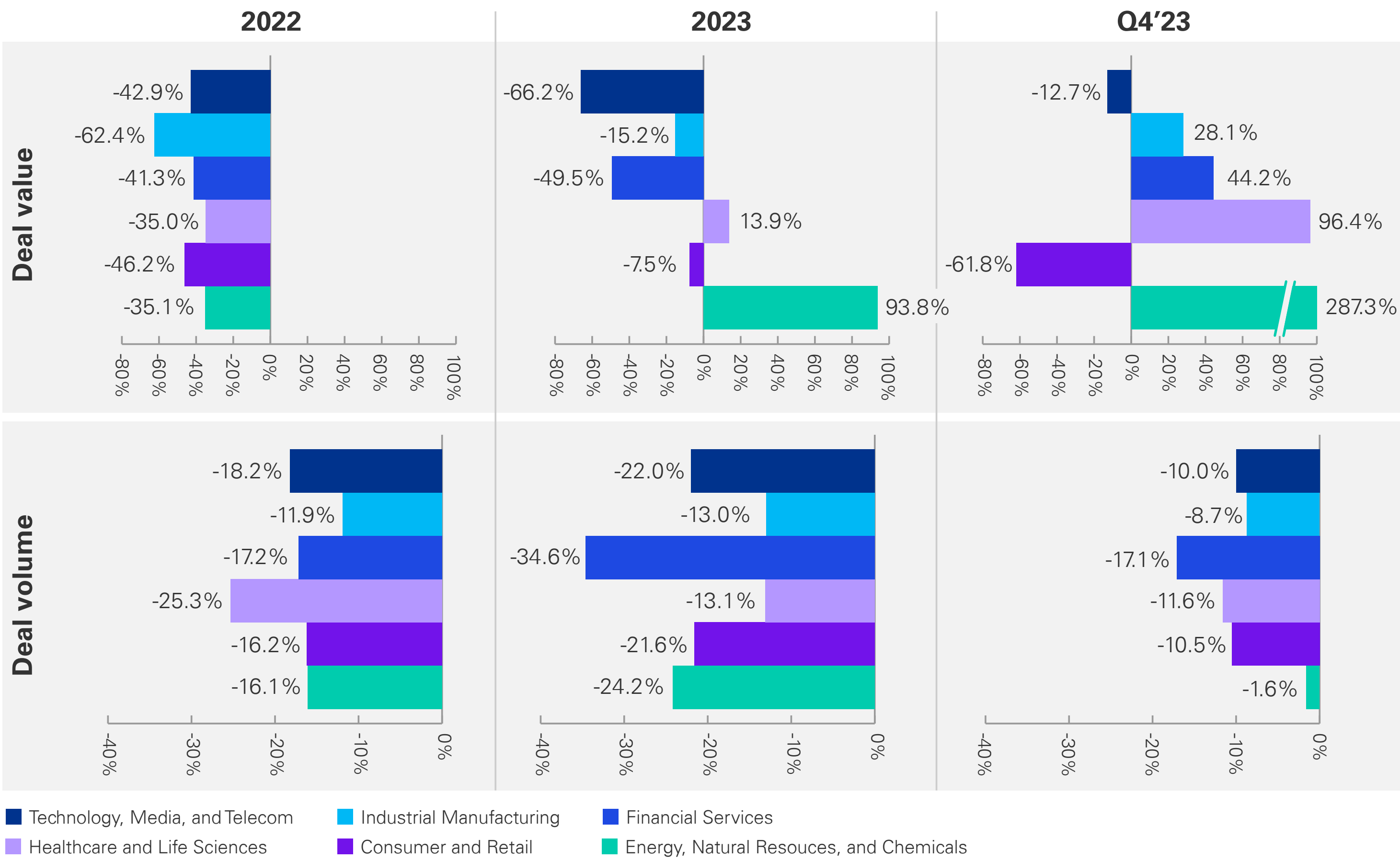
In 2023, deal activity fell to the lowest level in a decade, continuing a slide that began in the second half of 2022. Corporate deal activity was depressed by inflation, fear of recession, and accelerated interest-rate hikes by the Federal Reserve to halt the inflation spiral.

In 2022, the value of corporate M&A deals by U.S.-based companies fell by between 35 percent and 62 percent across the six industry sectors we track (Exhibit 1). Corporate deal volume fell by as much as 25 percent in Healthcare and Life Sciences (HCLS).

Despite hopes for a rebound in 2023, volume and value dropped again. The value of corporate deals fell by as little 7.5 percent in Consumer & Retail (C&R) and by more than 66 percent in Technology Media and Telecom (TMT). Deal value rose in Energy, Natural Resources, and chemicals (ENRC) and in HCLS.

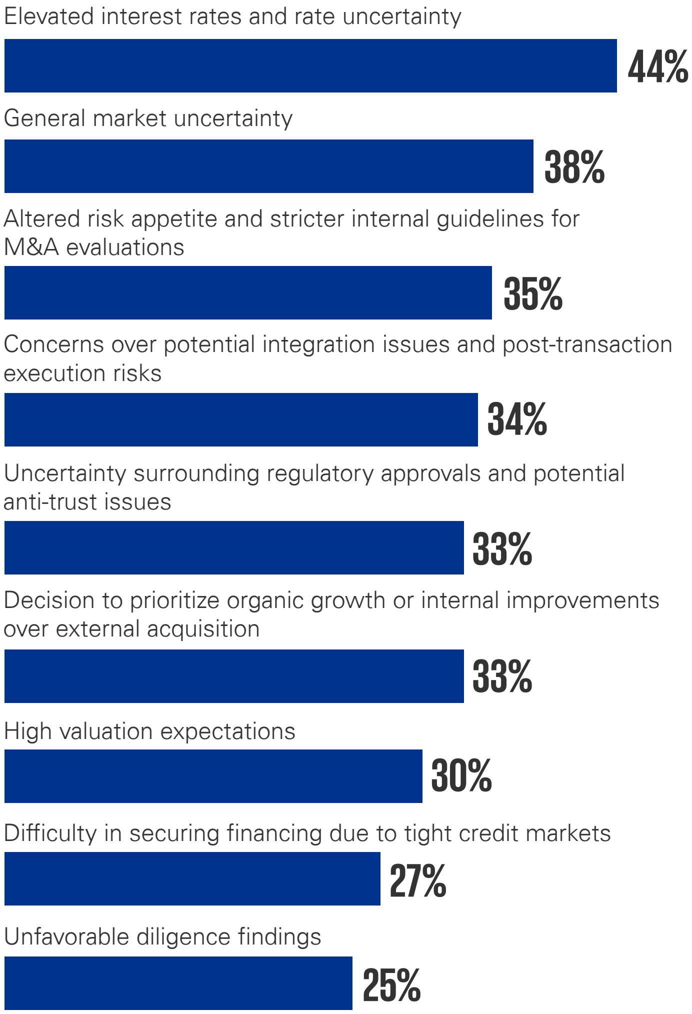
But there were signs of a turnaround in Q4’23, when the value of corporate deals rose above Q3’23 in every sector except TMT and C&R.

Exhibit 1. After two years of decline, signs of a rebound



Note: Figures for 2022 and 2023 are compared against the prior years and Q4’23 is compared against Q3’23
Source: Data sourced from Capital IQ and Pitchbook with KPMG analysis. Previously published statistics may be restated to incorporate new data and/or any changes.

Exhibit 2. What has held back corporate M&A



Q: What has prevented you and your team from moving forward on potential deal candidates? (n=150)

Source: KPMG Executive Survey

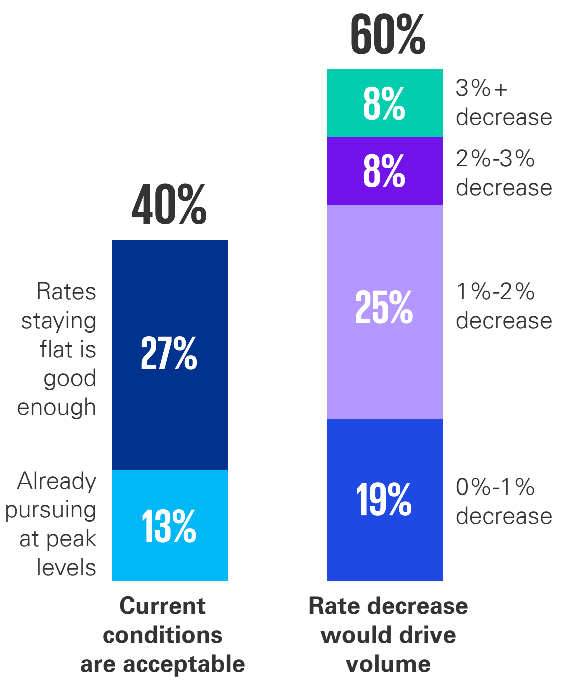
The KPMG 2024 M&A Survey shows that high interest rates and uncertain market conditions remain the top barriers to deal making for corporate executives (Exhibit 2). More than a third of executives cited a more conservative risk appetite and stricter company guidelines for deals and integration risks. A third of executives said their companies were prioritizing organic growth and internal improvements over M&A to create value. Another significant factor is shifting valuations and the bid/ask disconnect between buyers and sellers. We still see sellers holding out for the valuations of 2021 and buyers waiting to see multiples come down.

But the biggest forces holding back deal making seem to be receding. Uncertainty about the U.S. economy is being replaced by a growing belief in the strength of the expansion. The long-anticipated recession has not materialized and the inflation rate fell to a 3.4 percent annual rate in December 2023 from 6.5 percent in December 2022.[1] Unemployment remains below 4 percent and GDP was a surprisingly strong 2.5 percent in 2023, prompting KPMG economists to revise upward 2024 GDP growth estimates from 1.6 percent to 2.6 percent.[2] Rising equity markets also reflect confidence in the U.S. economy and give corporate buyers more purchasing power. High equity prices would normally spark a revival in IPO activity, but so far that has not happened, which may indicate some further IPO market disruption due to the increase in private capital markets as an alternative source of funding in the market today.

[1] See "Mastering complex deals and integration: 2024 Technology M&A Integration and Value Study," KPMG, LLP, 2024

[2] See "Navigating an election-year maze...Policy uncertainty and the economic outlook," KPMG LLP, February 2024

Exhibit 3. Rate cuts would help restore corporate M&A activity



Q: How significant of a decline would be needed for you to pursue a deal volume consistent with prior peak periods? (n=150)

Source: KPMG Executive Survey

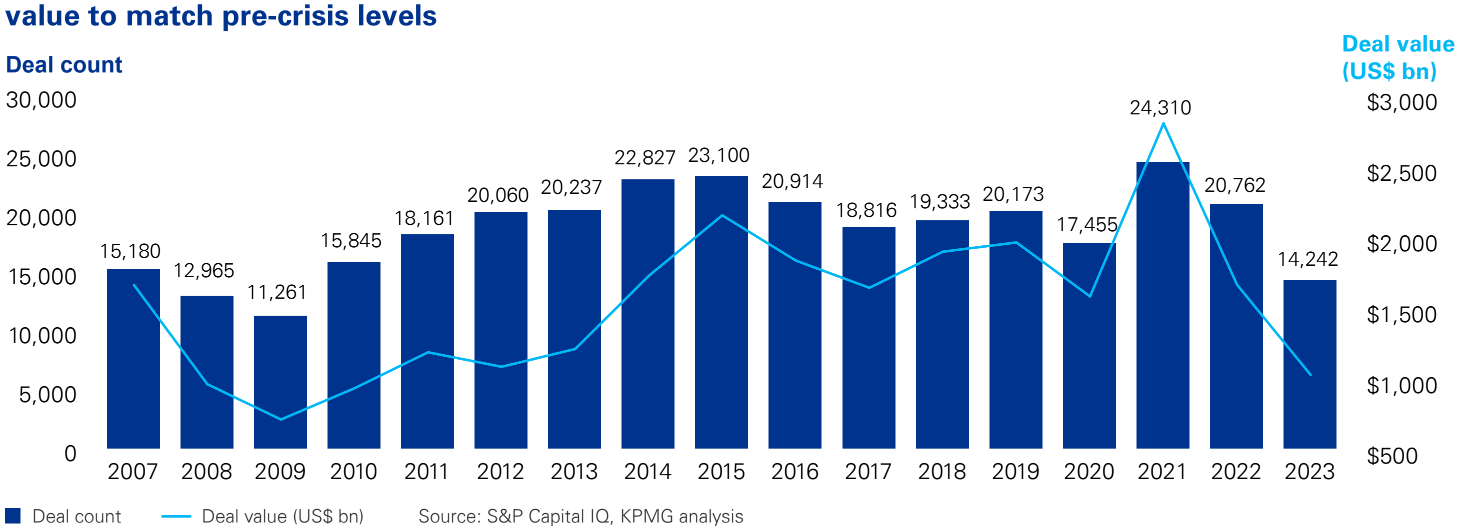
Another macroeconomic headwind—high interest rates—may ultimately fade. High rates raise the cost of financing and can cause would-be sellers to withhold assets from the market.

The Federal Reserve stopped raising rates in October 2023 and KPMG economists now predict the beginning of rate cuts in June.[4] While corporate investors may be less sensitive to interest rates than private equity players, in our survey more than 60 percent of corporate respondents said they need to see rate cuts before M&A activity can return to previous peak levels (Exhibit 3). Asked the impact of a just a half-point rate cut—signaling the start of a rate-cutting regime—would influence their M&A plans, more than a third (37 percent) said it would increase their deal-making appetite (this compares with 60 percent of PE investors who said a half-point cut would convince them to increase deal activity).

How quickly and how far the M&A market will rebound is difficult to predict. This has been an unusual economic cycle, and we are in uncharted waters. After the 2008 financial crisis, corporate M&A activity recovered after two years, but it took until 2014 for the annual value of corporate deals to match the 2007 level (Exhibit 4). In 2020, deal making value and volume dipped as the pandemic shut down the economy, but in 2021 corporate deal activity came roaring back,[5] exceeding both the volume and value of the previous peak in 2015.

And now? While barriers to deal making are falling, some headwinds remain, including depressed economic growth outside the U.S. and ongoing geopolitical upheaval.

Exhibit 4. After the global financial crisis, deal volume rebounded quickly, but it took six years for value to match pre-crisis levels



Source: S&P Capital IQ, KPMG analysis

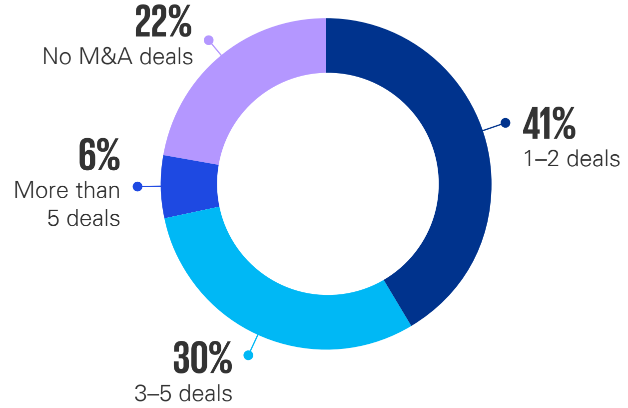
[4] See: "Navigating an election-year maze: Policy uncertainty and the economic outlook," KPMG Economics, KPMG LLP, February, 2024

[5] See, "2021 was a blowout year for M&A," KPMG LLP

Expectations for 2024: What kind of deals will be done?

Corporate executives expect overall deal making to increase in 2024, according to our survey. More than three-quarters of corporate executives said they would do at least one deal in 2024, and 36 percent said they would do three or more (Exhibit 5). Nearly half of corporate deal makers (45 percent) expect to make deals valued at more than $1 billion.

Exhibit 5. More than three-quarters of corporate leaders plan at least one deal in 2024; 30 percent plan three to five



Q: How many M&A deals does your company plan on doing in 2024? (n=150)

Source: KPMG Executive Survey

Deal goals

With growing confidence in the U.S. economy, the top goal for corporate deals in 2024 will be creating long-term strategic value and enabling growth, according to our survey. Executives are also for new, innovative ways to accelerate transformation programs, including through the acquisition of AI and other technology capabilities (Exhibit 6).

Exhibit 6. Top reasons for corporate deals include strategic value and growth and accelerating transformation

Focusing on long-term strategic value and growth	61%
Identifying recession-resistant industries and businesses	59%
Accelerate broad business transformation	55%
Expanding into new markets or customer segments	48%
Focusing on value-accretive deals that offer immediate synergies	45%
Opportunistically reviewing distressed assets for turnaround	39%

Q: What are the primary investment theses being used when considering deals in this market? (n=150)

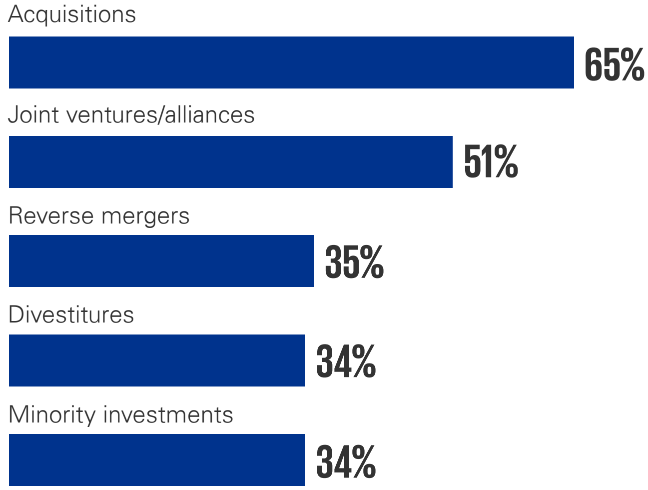
Source: KPMG Executive Survey

Deal types

Corporate players plan to use a variety of deal types to get the assets and capabilities they need as they move back into the M&A market. The volume of joint-venture (JV) deals jumped when the M&A market dried up in 2022 but even as the market recovers, we expect companies to continue to use JVs as a way to move quickly and share risk.[6] More than half of corporate executives in the KPMG survey said they expect to enter into joint ventures or strategic alliances in 2024 (Exhibit 7).

[6] See "Success in joint ventures," KPMG LLP, 2023

Exhibit 7. Half of corporate executives expect to enter into a joint venture in 2024



Q: Currently, what are the types of deals that you're considering? (Multi-select, n=150)

Source: KPMG Executive Survey

Sectors

Based on survey responses, the same sectors where M&A was strongest in 2023 will continue to lead in 2024: tech, healthcare, and industrial manufacturing (Exhibit 8).

Exhibit 8: Corporate deal makers expect to be most active in technology, industrial manufacturing, and healthcare

- 20% Business services
- 19% Consumer retail
- 18% Energy/chemicals
- 17% Life sciences
- 15% Telecom
- 13% Infrastructure
- 10% Media
- 6% Financial services

Q: In which industries are you planning to pursue M&A deals in the next year? Select all that apply. (Asked of those planning at least one M&A deal in 2024, multi-select, n=114)

Source: KPMG Executive Survey

Complex, cross-sector deals

While most corporate buyers plan to focus primarily on targets in their own industries, cross-industry deals are increasingly common. Often, these transactions are in support of ambitious strategic goals: looking for new sources of revenue or adding adjacencies not commonly considered, or accelerating the transformation of the company. More than 40 percent of executives said gaining access to new technologies will be a main driver for increased deal activity.

For example, Industrial manufacturing companies—automotive, aerospace, industrial equipment—have been acquiring tech firms and plan to do more such deals in 2024. These deals are part of digital transformation strategies—to build software and data services revenue, for example.[7] Automotive companies continue to buy tech companies to help the transition to electric vehicles and build "connected" cars.[8]

Nearly 40 percent of consumer and retail executives say that they plan to buy tech companies. In financial services, 55 percent of respondents said they plan to shop for tech deals—and only 45 percent of respondents said they would be buying within financial services. That makes financial services the only sector in which executives are not prioritizing deals within their own industries. In life sciences, executives say they are more likely to be buying manufacturing assets than technology this year.

A focus on capturing value

Corporate executives are acutely aware of growing challenges for realizing value from their transactions. As noted, executives in our survey said one of the major reasons they have been reluctant to do deals is because of concerns over achieving stated financial goals in the investment model.

Increasingly, corporate acquirers are taking on complex transactions, which cause difficulties in executing integration plans and raise the risk of value realization leakage. Complex transactions include "transformational" cross-industry deals that often involve complex integration challenges—combining companies with dissimilar operations, systems, cultures, ways of working, etc. Another challenge in complex transactions is the need for rapid revenue synergies—in addition to cost synergies—to make deals with high multiples pay off.[11]

Corporate deal makers say their top post-close priorities are managing risks to protect value (57 percent) and engineering a smooth transaction that does not disrupt the performance of the combined companies (54 percent).

Deal makers can improve the odds of value preservation and capture by front-loading execution planning and pressure testing target operating model and assumptions. Rigorous diligence also can help identify risks and plan mitigation actions ahead of time.

[7] See, "From traditional to smart industrials," KPMG LLP, 2023

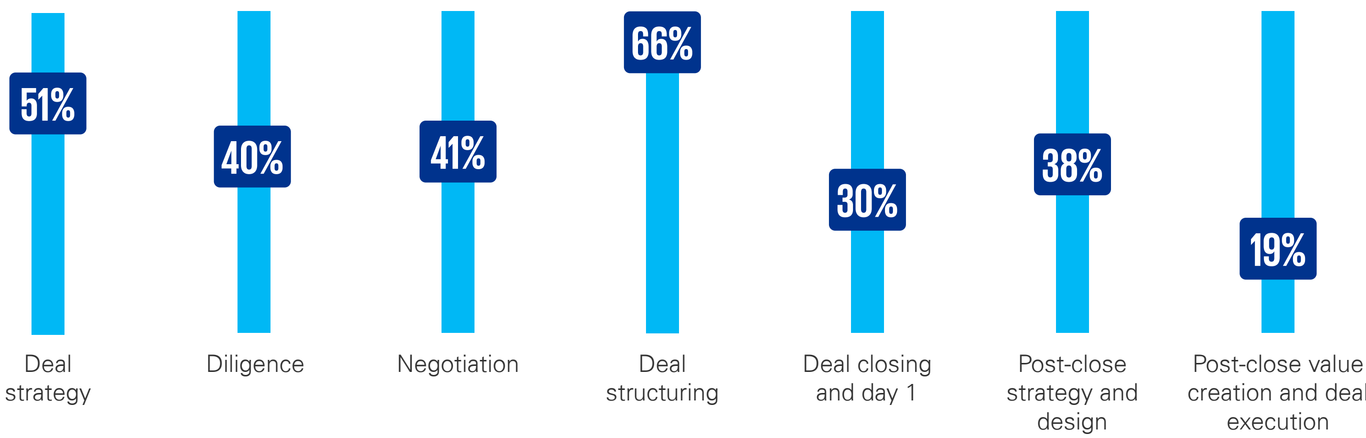
[8] See: "From Industrial to digital with M&A," KPMG LLP, 2023

[9] See Healthcare and Life Sciences Investment Outlook, KPMG LLP, 2024

Using generative AI to craft deals and accelerate the deal cycle

Generative AI is quickly spreading across industries and functions, including M&A teams. In our survey, 92 percent of corporate respondents said they are using or plan to use generative AI, at least in a limited capacity (54 percent said they are using the technology now and 38 percent plan to start using it in 2024). According to our survey, deal structuring will be the most common stage for generative AI use, followed by deal strategy and negotiation (Exhibit 9). Only 19 percent of corporate respondents expect to use generative AI for execution and post-close value creation.

Exhibit 9. Where corporate deal teams expect to use generative AI in the M&A process



Q: What stages in the deal process do you plan to prioritize the use of generative AI? (Asked of those using or planning to use generative AI in the M&A process, n=138)

Source: KPMG Executive Survey

[11] See, "Navigating complex M&A," KPMG LLP, 2022

Remaining headwinds

While much of the uncertainty that held back deal making in 2022 and 2023 may be subsiding, there are still headwinds. KPMG's economists have raised their estimate of 2024 U.S. GDP growth from 1.6 percent to 2.6 percent, but the outlook for the rest of the world is weak (growth in Germany and the United Kingdom has flat-lined and China is struggling). The World Bank has predicted the weakest half-decade of global growth in 30 years, the lowest since the early 1990s.[12] While economists have raised estimates of U.S. GDP growth, there is still a 40 percent chance of recession—down from 65 percent in early 2023—according to a February 2024 poll.[13]

Another headwind is tighter deal oversight by regulators, who are looking closely at impacts of business combinations on competition, prices, and innovation. Forty-five percent of executives cited regulatory hurdles as an impediment to closing deals (Exhibit 10).

Exhibit 10. Executives most often cite regulatory issues as an impediment to closing deals

45%	Regulatory hurdles
42%	Agreeing on valuation
34%	Obtaining financing
32%	Completing due diligence
27%	Integration planning
23%	Adverse change
21%	Actioning due diligence
21%	Legal disputes

Q: What challenges have you recently faced in closing a deal? (Multi-select, n=150)

Source: KPMG Executive Survey

In January 2024, a federal judge blocked the merger of JetBlue and Spirit Airlines, after the Department of Justice and state attorneys general sued to stop the deal due to likely impact on consumers. In December 2023, citing "no clear path" to completing its $20 billion deal for Figma, Adobe walked away from the deal after more than a year of negotiating with regulators.[14] Microsoft's $69 billion purchase of Activision Blizzard finally closed in 2023, but the deal required lengthy review and accommodations. Now regulators in Europe are looking into Microsoft's investment in OpenAI, and U.S. regulators are reportedly considering investigations as well.[15]

[12] Collette Wheeler and Vasiliki Papagianni, "The Global Economy in Five Charts," World Bank, January 2024

[13] Augusta Saraiva and Kunglin Yoo, "Economists Lower Recession Forecasts to 40% on US Job Growth Expectations," Bloomberg, February 23, 2024

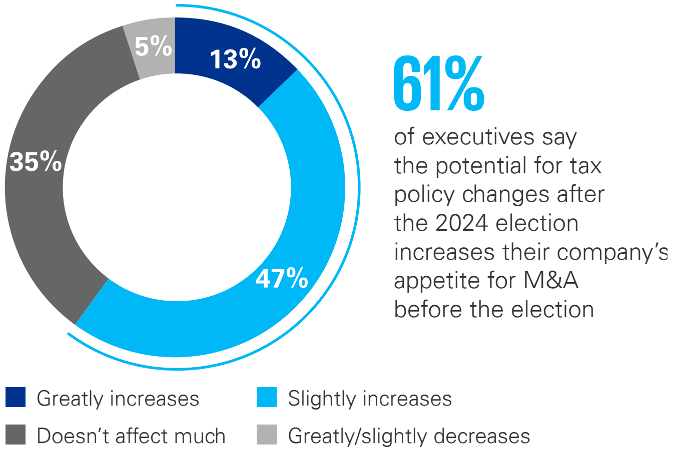
[14] Akash Sriram and Chavi Mehta, "Adobe, Figma to terminate $20 bln deal over regulatory hurdles," Reuters, December 18, 2023

[15] Josh Sisco, "Both of these agencies want a piece of Microsoft's Open AI partnership," Politico, January 19, 2024

In life sciences, the Federal Trade Commission' largest action in years came in 2023 when it challenged Amgen's $28.3 billion bid for Horizon Therapeutics, citing possible market-access effects.[16]

Finally, 2024 is a presidential election year, which creates uncertainty about the direction of policy. The prospect of a possible change in policy could also pull transactions forward: in our survey, 61 percent of corporate respondents said the possibility of changes to tax policy under a new administration might increase their appetite to conclude deals before the vote (Exhibit 11). Only 5 percent of executives said that the possibility of different tax policies post-election would cause them to decrease their deal appetite.

Exhibit 11. The election effect: The prospect of tax policy change might pull some deals into 2024



Q: Does the potential for tax policy changes after the 2024 election affect your company's appetite for M&A before the election? (n=150)

[16] See Healthcare and Life Sciences Investment Outlook, KPMG LLP, 2024

How KPMG can help

KPMG Deal Advisory & Strategy practice advises corporate and PE clients in every stage of the M&A lifecycle, providing an execution-focused approach to maximize and accelerate the value creation process. We bring domain expertise, industry depth, and an integrated transformation approach to meet the specific challenges of companies, private equity, and venture capital investors. KPMG Corporate Finance helps companies and PE firms with acquiring a new business, selling an existing business, and help access capital markets to raise funds that help achieve growth.

Whether plotting the best path to a winning bid, helping to identify, protect, and create value, or managing risks, KPMG deal advisors harness deep industry and functional experience. Our insights reduce uncertainty, help clients make better decisions, and achieve faster outcomes. Our integrated approach helps clients identify and realize the extraordinary synergies that today's complex deals demand. Our teams use advanced data analytics to generate distinct insights into companies and markets to help support smooth deal execution, optimize value realization, and minimize risks.

Our approach to deal preparation and execution

M&A strategy

Value creation starts with the buyer's unique needs, a well-considered capital allocation strategy, and the development of strong investment cases based on a strategic vision. We support clients in portfolio strategy and pre-deal assessment, target identification, market intelligence, investment case development, and early synergy identification.

Integrated diligence

With multidisciplinary teams, our functionally integrated diligence approach focuses on key risks and value drivers of the deal. Our advanced analytics, proprietary data sets, and deal-specific data help generate distinct insights and actionable plans, all at deal speed.

Readiness

During the readiness stage (i.e., sign to close), we concentrate on the prevention of value leakage by helping clients protect the existing business, prepare for Day 1, and develop a future-state model that facilitates rapid post-close value creation.

Value protection

We help our clients protect value by supporting business continuity, talent retainment, and operational focus while minimizing commercial and operational risk.

Value realization

We help accelerate value capture during integration, marshalling the experience of our functional, performance, and deal specialists. Leveraging the momentum from quick wins, we enable our clients to realize greater synergies and achieve their strategic objectives with speed.

Sustained performance

Our determined focus on value is a core competency. Our teams have led hundreds of performance improvement projects and helped clients implement systematic processes that sustain value and prevent backsliding.

Authors

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Carole leads the firm's extensive network of consultants who advise clients through the M&A transaction lifecycle, from deal strategy and due diligence to post-close integration to help clients unlock new sources of value and drive sustainable growth. Carole has over 25 years of experience as a strategic advisor to leaders of corporate, private equity, and public organizations as they look to execute on complex transactions, improve businesses performance, reduce risk, and reshape strategy.

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Dean is the Market Activation Leader for KPMG's Deal Advisory and Strategy practice. In this role, he executes the go-to-market strategy with our industry, channel, and sales team leaders and drives collaboration with KPMG's broader advisory practice to bring KPMG's services to market.

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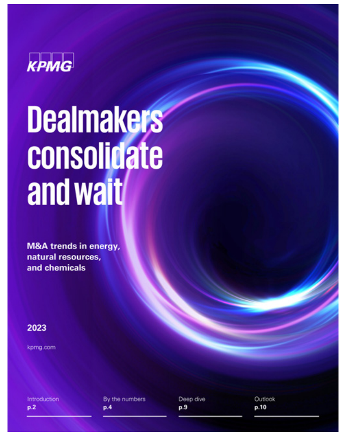

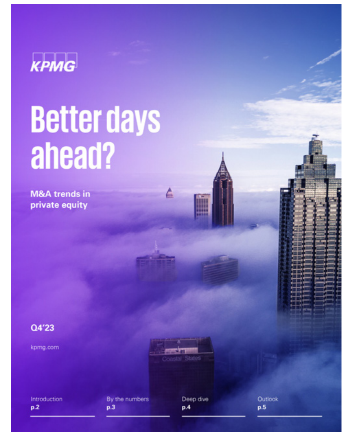

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