2024 M&A outlook for private equity

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

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Introduction

After another down year for deal activity, senior executives at private equity (PE) firms believe that mergers and acquisitions (M&A) will rebound this year. “We are optimistic for a return to dealmaking in 2024, and our 2024 M&A Outlook survey of dealmakers also shows the same optimism,” says Carole Streicher, head of Deal Advisory and Strategy at KPMG LLP.

Based on the survey results, KPMG expects the revival of PE deal activity to accelerate in the second half. That’s when interest rates are expected to start falling, luring deal makers back. “This makes sense since our survey shows private equity being much more sensitive to interest rates than corporates, and because our economists are not expecting rates to start falling until the spring,” Streicher noted.

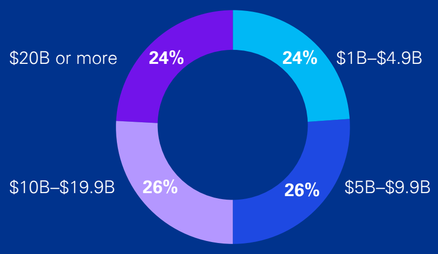
Key PE take-aways

- Deal activity will ramp up in second half, after rate cuts
- 68 percent expect greater deal volume than 2023
- 80 percent expect next deal will be worth $1 billion-plus
- 60 percent believe a half-point cut by the Fed would increase deal making
- Focused on reverse mergers, divestitures, and minority investment deals

Methodology:

KPMG LLP surveyed 50 managers of U.S.-based PE funds and 150 corporate executives of U.S.-based companies in Q4’23. For the purposes of this paper, we focus on responses from fund managers. 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.

Q: What is your fund size? N=50



The case for optimism in 2024: weakening headwinds

In mid-2022, when inflation erupted, economists began warning that a recession was likely as the Federal Reserve accelerated interest rate hikes to halt the inflationary spiral. Subsequently, M&A activity started to drop. By the end of the year, PE deal volume had fallen by up to 29 percent across industries (from a very strong 2021) and value fell by more than 50 percent in sectors such as consumer and retail (Exhibit 1). Despite hopes for a rebound in 2023, PE value dropped even more year-on-year, although the volume declines moderated.

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

Overall deal activity	YoY % change in deal volume		YoY % change in deal value	
	2022	2023	2022	2023
TMT	-19.1%	-22.3%	-22.7%	-64.9%
IM	-13.3%	-12.5%	-50.1%	-37.4%
FS	-17.3%	-31.6%	-38.2%	-52.1%
HCLS	-25.6%	-16.1%	-26.4%	-11.8%
C&R	-18.9%	-20.6%	-50.4%	-11.7%
ENRC	-19.3%	-23.0%	-29.0%	47.9%

PE deal activity	YoY % change in deal volume		YoY % change in deal value	
	2022	2023	2022	2023
TMT	-21.1%	-22.8%	34.3%	-63.2%
IM	-15.1%	-11.8%	-27.2%	-58.7%
FS	-17.8%	-10.7%	-19.3%	-63.9%
HCLS	-26.2%	-21.0%	-2.3%	-59.3%
C&R	-28.8%	-16.7%	-58.3%	-21.6%
ENRC	-28.8%	-19.2%	-4.4%	-77.3%

Overall deal activity	% change in volume		% change in value	
	Q3'23	Q4'23	Q3'23	Q4'23
TMT	-6.9%	-11.8%	44.6%	25.1%
IM	-5.1%	-10.8%	31.2%	33.8%
FS	0.0%	-17.9%	-16.0%	8.0%
HCLS	-6.5%	-19.8%	-40.5%	61.6%
C&R	-14.7%	-11.0%	37.2%	-60.0%
ENRC	-12.5%	-2.4%	-31.0%	260.6%

Greater than 0%   0% to -20%   -20% to -40%   -40%+

C&R: Consumer, retail; **ENRC:** Energy, natural resources,chemicals; **FS:** Financial services; **HCLS:** Healthcare, life sciences; **IM:** Industrial manufacturing; **TMT:** Technology, media, telecom

Source: Data sourced from Capital IQ and Pitchbook with KPMG analysis. Deal values are based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

The survey shows that high interest rates and market uncertainty will remain the top barriers to deal making. Half of PE respondents said difficulty securing financing holds back potential deals. Another factor is the continuing disconnect between valuation expectations of buyers and sellers. We still see sellers holding out for the valuations of 2021 and buyers waiting to see multiples come down. If multiples don't decline, almost one-third of PE firms say they don't expect to use much dry powder in 2024.

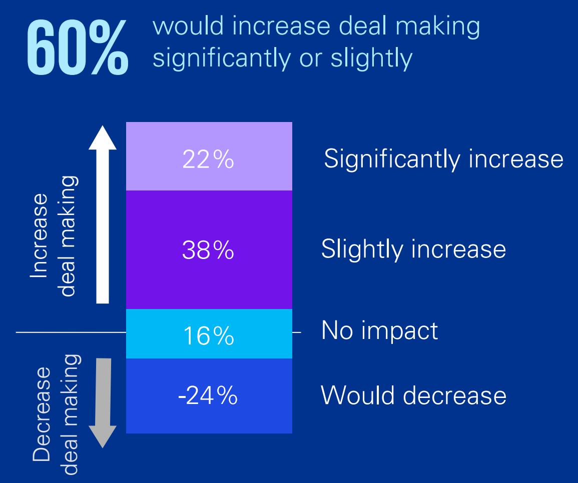
But these issues may be receding. There is less uncertainty about the U.S. economy: the long-predicted recession has not materialized, and the inflation rate fell to a 3.4 percent annual rate in December 2024 from more than 6 percent in December 2022.[1] Unemployment remains below 4 percent and consumption is holding up. Rising equity markets also reflect less uncertainty about the economy.

Throughout 2023, deal makers were looking for signs that rates would stop rising. That happened in October 2023. Now, it seems, the only thing standing in the way for many deal makers is the beginning of rate cuts.

[1] U.S. Bureau of Labor Statistics

In our survey, 66 percent of PE respondents said they need to see rate cuts before M&A activity can return to previous peak levels. KPMG economists predict that rate cuts could begin as early as June 2024.[2] Even a half-point cut, signaling the end of the high-rate regime, would convince 60 percent of PE deal makers to start moving, according to our survey (Exhibit 2).

Exhibit 2. A majority of PE firms project an increase in deal making with rate cuts



Q: How would a hypothetical 0.5 percentage point decrease in rates affect your deal making? N=50

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

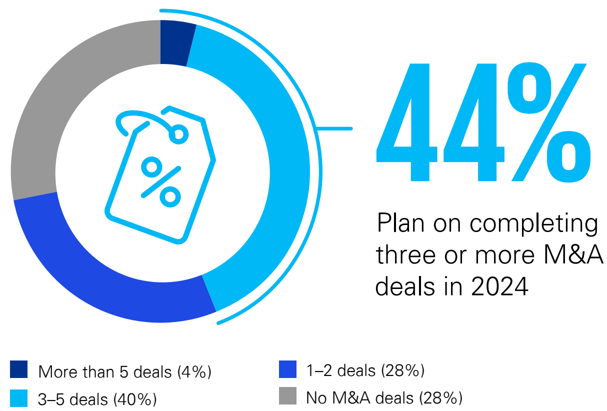
Expectations for 2024: what kind of deals will be done?

More than three-quarters of all executives in our survey said they would do at least one deal in 2024. PE respondents seem slightly more ambitious: 44 percent of respondents said they plan three or more deals (Exhibit 3). Eighty percent of PE respondents said they were also looking for deals valued at more than $1 billion. However, deal making is expected to pick up only slowly, with 44 percent saying they expect to proceed with their next deal in the second half.

Deal goals

PE buyers in the survey said the primary goals for deals this year (Exhibit 4) will be to find distressed assets for turnaround (66 percent), expand into new markets or customer segments (64 percent), and identify recession-resistant industries and businesses (50 percent). As they move back into the M&A market, PE players plan to continue use of alternative deal types to get the assets and capabilities they need. PE funds, which have been deploying money in private lending and the secondary market while M&A markets were stalled, are looking for reverse mergers (52 percent) and minority investments (50 percent) in 2024.

Exhibit 3. Many PE firms have ambitious plans for deals in 2024



Q. How many M&A deals does your company plan on doing in 2024? N=50

Exhibit 4. PE firms are looking for distressed assets and expansion opportunities

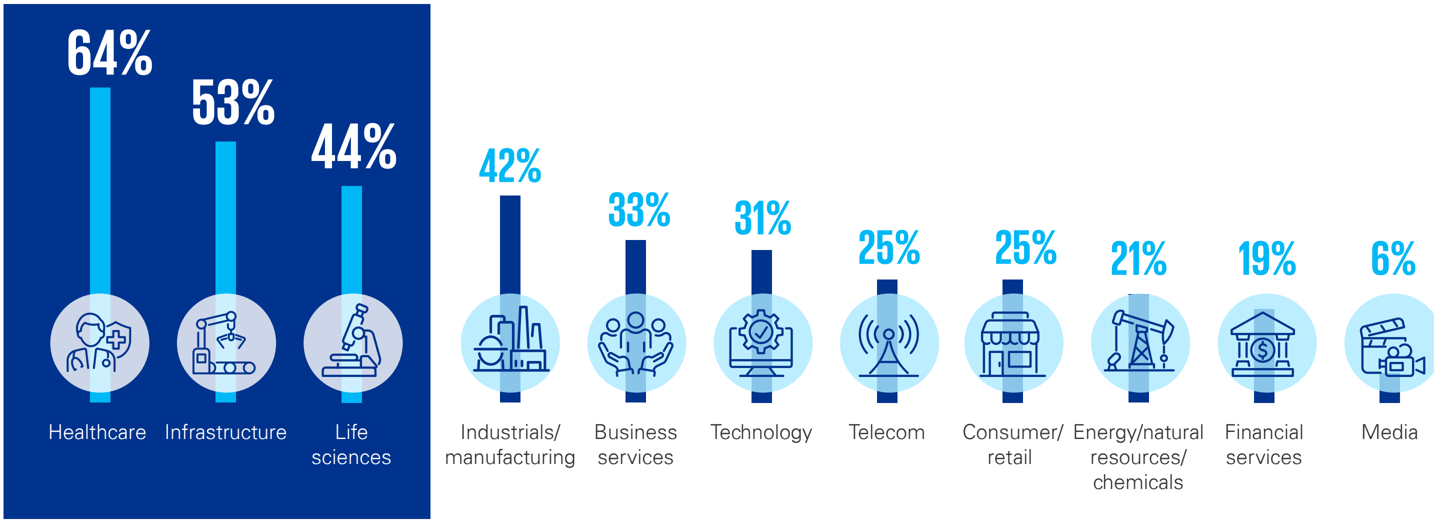
Opportunistically reviewing distressed assets for turnaround	66%
Expanding into new markets or customer segments	64%
Identifying recession-resistant industries and businesses	50%
Accelerate broad business transformation	48%
Focusing on value-accretive deals that offer immediate synergies	46%
Focusing on long-term strategic value and growth	44%

Q: What are the primary investment theses being used when considering deals in this market? N=50

Sectors

PE firms are most interested in healthcare deals, with 64 percent of respondents expecting to pursue M&A in the industry (Exhibit 5). PE executives also identified infrastructure-related companies as their second largest targets (53 percent), which comes at a time when states are receiving $1.2 trillion in federal infrastructure subsidies to begin projects,[3] driving increased interest in this sector.

Exhibit 5. Healthcare, infrastructure, and life sciences deals will be top PE targets



Q: In which industries are you planning to pursue M&A deals in the next year? (Multiselect); N=36

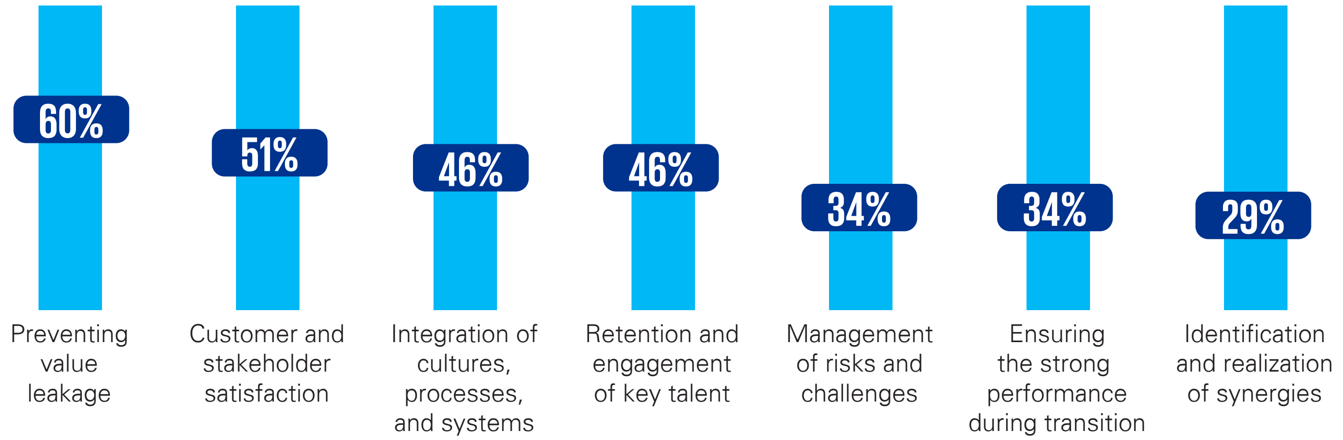
Value capture challenges in 2024

Making deals pay off is increasingly challenging, according to both PE investors and corporate deal makers. Simple scale deals are less common, and more acquirers are undertaking complex transactions, such as forays into new businesses or buying tech assets to advance digital transformation. More than one-third (34 percent) of PE respondents said gaining access to new technologies was a main objective of their recent deals. But in such deals, complexities often arise from the extraordinary synergies required and compounding layers of complications that create additional headwinds against value capture. Think of recent challenges with snarled supply chains or severe talent shortages.

When executing and integrating deals, PE investors (60 percent) are especially concerned about value leakage (Exhibit 6). Deal makers, however, can improve the odds of value preservation and capture by front-loading execution planning and pressure testing target operating model and assumptions. Maintaining stakeholder satisfaction is also a major concern for PE respondents (51 percent). This is not surprising since slow deal activity and delayed exits have made many investors in PE funds antsy.

[3] Eric Van Nostrand, "Infrastructure Investment in the United States," U.S. Department of the Treasury, November 15, 2023

Exhibit 6. PE firms are most concerned about preventing value leakage

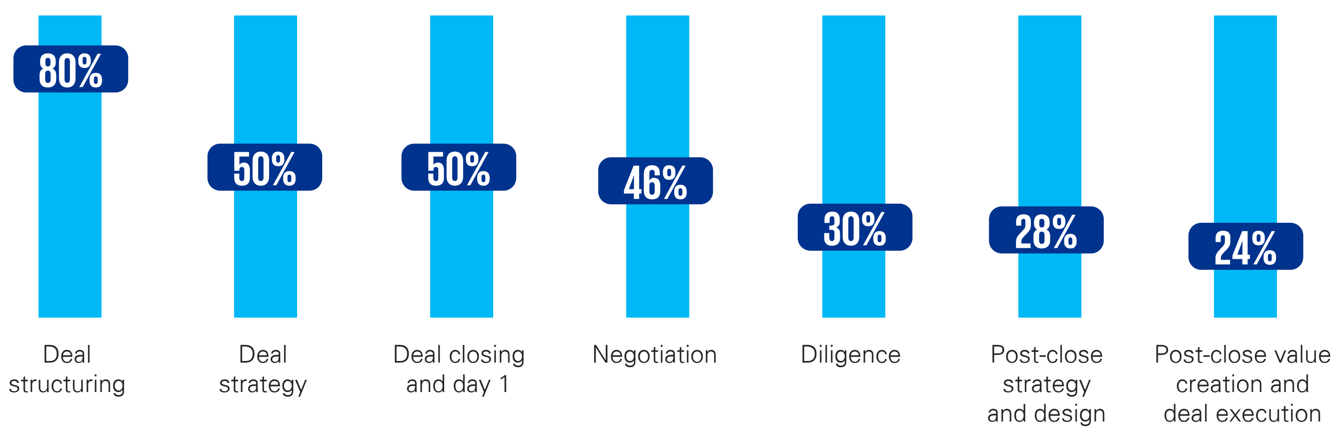


Q: What are your primary focus areas for ensuring value realization? (Asked of those conducting at least one deal in the last 24 months.) N=35

Using generative AI to craft deals and accelerate the deal cycle

Generative AI is quickly spreading across industries and functions, and M&A teams are no exception. In our survey, half of PE respondents say they are using generative AI, at least in a limited capacity in the M&A process now while another 42 percent plan to do so in 2024. They plan to prioritize the use of generative AI (Exhibit 7) in deal structuring (80 percent), followed by deal strategy (50 percent) and deal closing (50 percent).

Exhibit 7. Where PE players are using generative AI in deal processes



Q: What stages in the deal process do you plan to prioritize the use of Gen AI? (Asked of those using or planning to use generative AI in the M&A process.) N=46

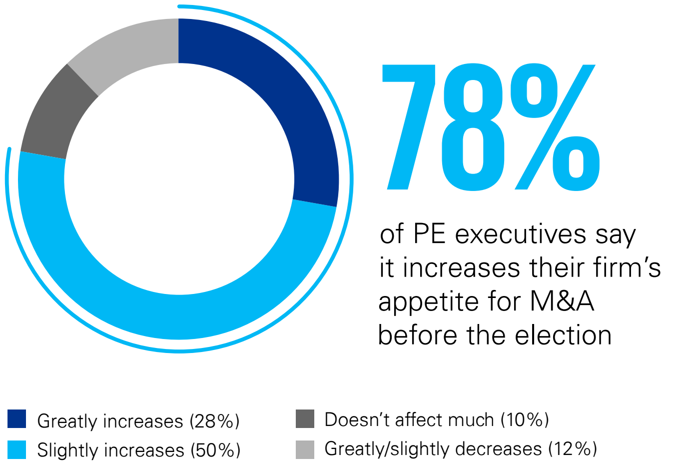
Remaining headwinds

Some of the uncertainty that held back deal making in 2022 and 2023 has lifted, but there are still headwinds. While KPMG's economists have raised their estimate of 2024 U.S. GDP growth from 1.6 percent to 2.6 percent, the outlook for the rest of the world is weak (Germany is in recession, China is struggling). The World Bank has predicted the weakest half-decade of global growth in 30 years, the lowest since the early 1990s.[4]

Another headwind is tighter deal oversight by regulators, who are looking closely at impacts of business combinations on competition, prices, and innovation, particularly in technology. 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.[5] 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.[6] As a result of such scrutiny, 42 percent of PE respondents said they have faced challenges in closing deals.

Finally, 2024 is an election year, which creates uncertainty about the direction of policy. In the past, we have seen deal activity fall off after presidential elections.[7] In our survey, 78 percent of PE respondents said the possibility of changes to tax policy following the election might motivate them to conclude deals before the vote (Exhibit 8).

Exhibit 8. The election effect: The prospects 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=50

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

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

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

[7] "U.S. Election Day – What's Going To Happen For M&A," S&P Global Market Intelligence, November 8, 2016

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 help maximize and accelerate the value creation process. We bring domain expertise, industry depth, and an integrated transformation approach to meet the specific challenges of portfolio companies, private equity, and venture capital investors. KPMG Corporate Finance helps companies and PE firms create value through strategic M&A and capital raises.

Whether plotting the 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

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.

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.

Value protection

We help our clients protect value by supporting business continuity, talent retainment, and operational focus while reducing 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 help 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 business 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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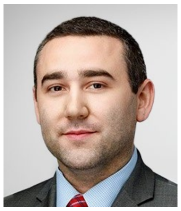
Joe is the Private Equity National Channel leader for KPMG's Deal Advisory & Strategy Practice. Joe has performed due diligence on over 1,000 transactions across numerous industries with purchase prices ranging from $5 million to over $15 billion, working exclusively with PE clients and their related portfolio platforms.



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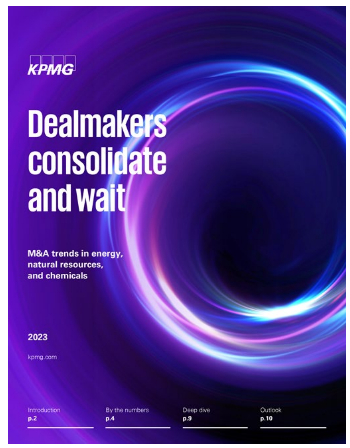

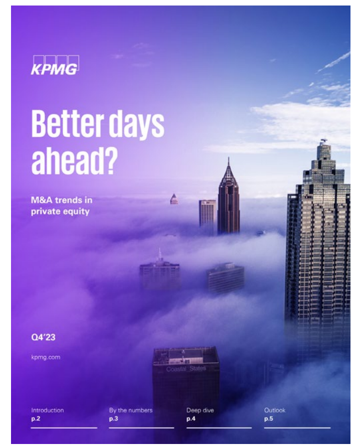

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