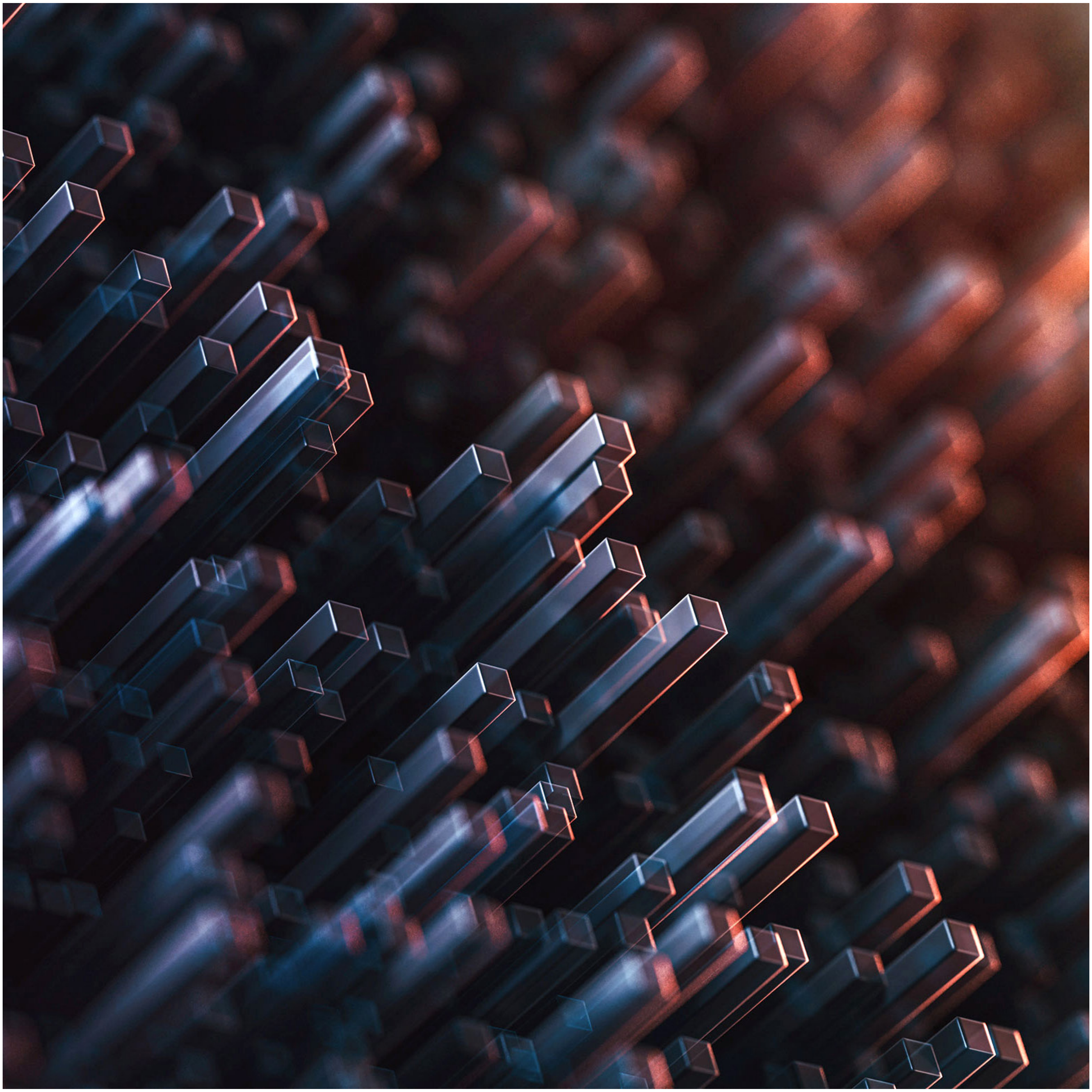

Global M&A Report 2024

Gaining an edge in a market reset

BAIN & COMPANY

Acknowledgments

This report was prepared by the leadership team of Bain & Company's Global M&A and Divestitures practice, with special direction from Les Baird, partner; David Harding, advisory partner; Dale Stafford, partner; Kai Grass, partner; Suzanne Kumar, practice vice president; Lindsey White, senior manager; and an editorial team led by David Diamond.

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Contents

Letter from the Leader of Bain's M&A Practice

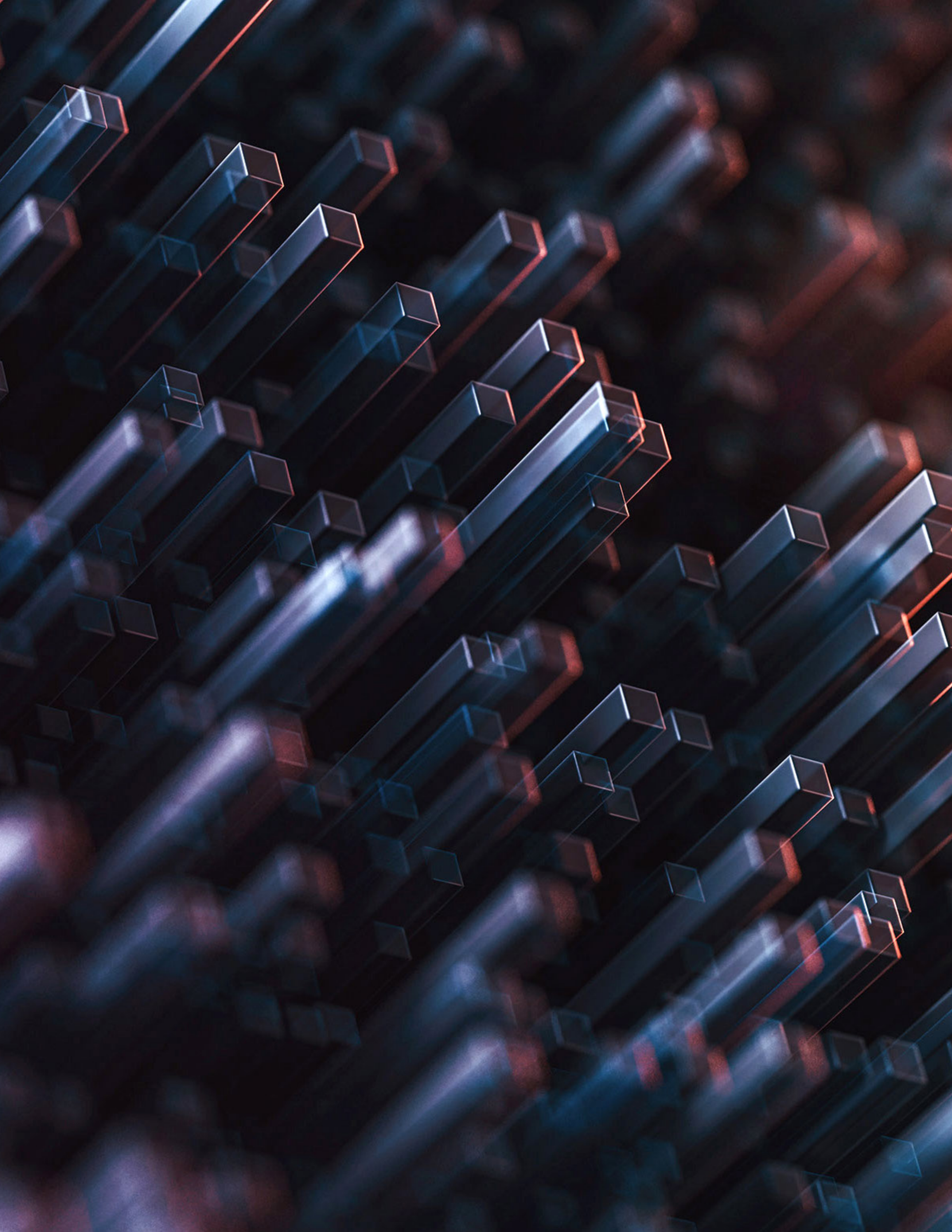
Dear friends,

We publish our annual M&A report to help business leaders get better at the art and science of doing deals.

In this, our sixth report, we analyze why 2023 was the year that buyers and sellers couldn't agree on valuations, noting how strategic deal multiples sank to their lowest level in 15 years while public market valuations ended 2023 near all-time highs. Our report includes a look at the state of the market and our view of the year ahead (optimistic). It also dives into specific industries and regions and explores the impact of generative artificial intelligence and regulatory scrutiny on dealmaking.

A common theme running through these chapters: Turbulent times produce strategic winners and losers, and 2023 was no exception.

Les Baird
Leader of Bain's M&A Practice



State of the Market

State of the Market

Looking Back at M&A in 2023: Who Wins in a Down Year?

Deals slowed as buyers and sellers waited for the other to make the first move.

By David Harding, Dale Stafford, Kai Grass, Suzanne Kumar, and Lindsey White

At a Glance

- In 2023, the total M&A market dropped 15%, to $3.2 trillion, the lowest level in a decade.
- Strategic M&A declined 6% as buyers and sellers struggled to close the gap on valuations, and strategic deal multiples were the lowest they've been in a decade.
- Deals were delayed for other reasons, including high interest rates, mixed macroeconomic signals, regulatory scrutiny, and geopolitical risks.
- Many longtime frequent acquirers used 2023 as an opportunity to expand their competitive advantage through M&A.

It's no secret that the M&A market declined in 2023 as the valuation gap between what buyers wanted to spend and what sellers wanted to charge for their companies kept many would-be deals from happening. M&A practitioners told us that the valuation gap was the biggest obstacle to dealmaking, and there were other headwinds in 2023 as well, including high interest rates, macroeconomic uncertainty, rising regulatory scrutiny, and new political pressures.

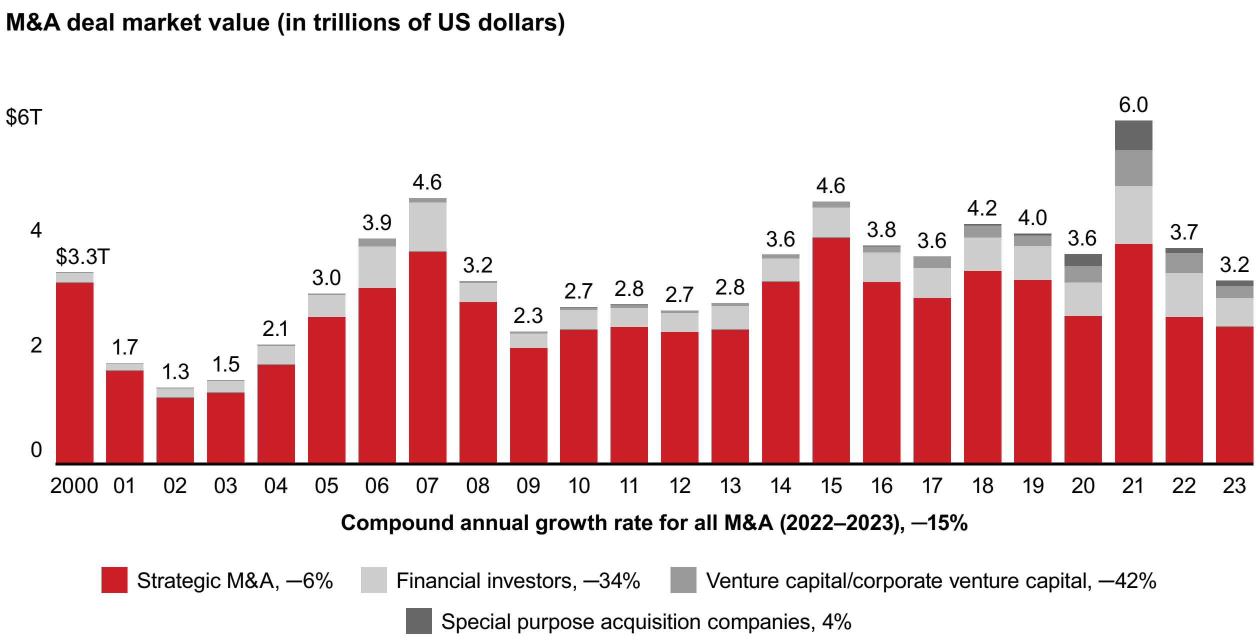
But while down overall by 6% in value, the strategic M&A market reflected uneven performance. For example, tech deals cratered while activity in healthcare and life sciences as well as energy and natural resources rebounded. The Americas market held steady as Europe and Asia faltered. Scratch beneath the placid surface, and you see how, across industries and around the world, winning companies turned to deals to reinvent their future, whether it was automakers acquiring to secure supplies for the transition to electric vehicles, insurers buying to expand their traditional role of risk protection to risk prevention, or media companies learning that partnering with former fierce competitors is the only way to win as their industry enters a new era.

The companies that made such moves will be those that emerge as leaders. Perhaps the most important M&A news from 2023, however, was the widening of the performance gap between frequent acquirers and their inactive peers. According to our long-term research, frequent acquirers always outperform in total shareholder return. In 2023, that margin continued to grow.

What the numbers say

The world of strategic M&A still saw more than 27,000 deals announced, totaling about $2.4 trillion, a 6% decline in value from the year before *(see Figure 1)*. If those numbers seem better than what you may have read in the newspapers, keep in mind that the broader world of leveraged private equity and venture capital deals had a much worse time (down 37% in value). Those businesses were more exposed to the rise of interest rates and issues of debt availability. In contrast, corporate buyers generally had stronger balance sheets with cash on hand to do deals.

Figure 1: Global M&A deal value was $3.2 trillion in 2023, down 15% year over year



Note: Strategic M&A includes corporate M&A deals (which includes private equity exits) and add-ons
Source: Dealogic as of January 16, 2024

Still, no dealmaker could avoid the impact of rising interest rates. Nearly every executive we spoke with and a full 95% of those we surveyed agreed that higher interest rates required them to adapt their approach to M&A in 2023. The No. 1 adjustment? Being more selective in which deals are being pursued, which was cited by two-thirds of respondents.

But the biggest obstacle was the gap between valuations, which contributed to the lowest year for strategic M&A in a decade and caused prices to plunge. The valuation gap was the only thing that surveyed buyers and sellers seemed to agree on. More than two-thirds of buyers told us that it negatively impacted M&A activity. On the other side of the table, at nearly the same rate, potential sellers cited more favorable deal valuations as a top factor in deciding when to bring their assets to market. In some ways, 2023 will be remembered as the year in which buyers and sellers waited for each other to blink.

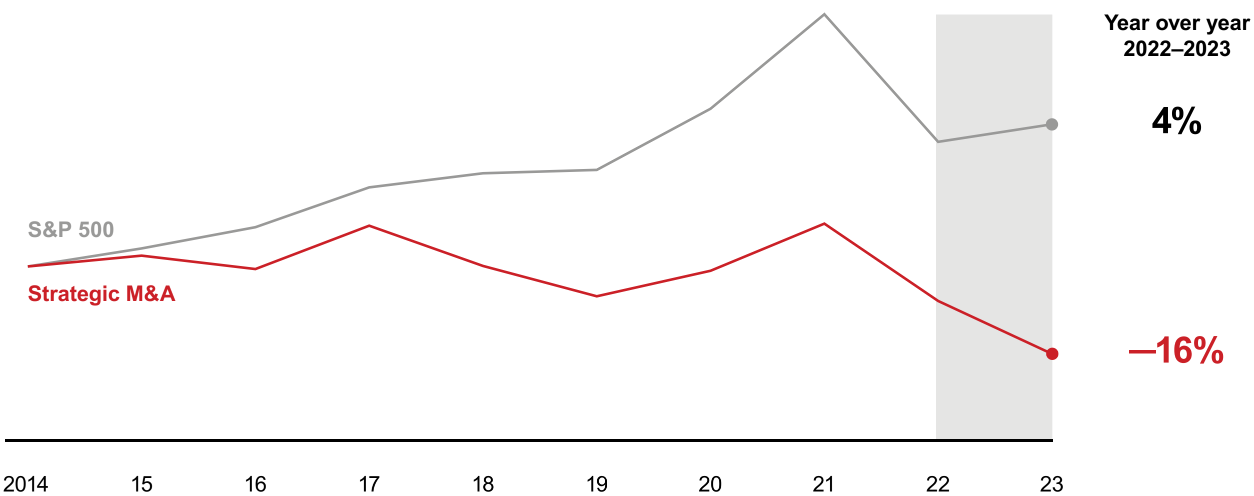
Anecdotally, we heard from our investment banking friends that a notable number of deal processes were abandoned before bids were accepted this past year. Why was it particularly hard to close the valuation gap in 2023? Our research pointed out four causes.

- Again, rising interest rates played a major role. The big argument throughout 2023 was the shape of the interest rate curve in years to come. Buyers needed deals to deliver a margin of safety from higher-for-longer interest rates whereas sellers held back in hopes that rates would come back down.
- A second straight year of declining strategic deal valuations made dealmakers wary *(see Figure 2).* At 10.1 times, overall deal multiples were the lowest in 15 years, with room to fall further; most downturns find a trough between 9 times and 10 times. Amid declining valuations, buyers took a skeptical view of assets priced with pride while sellers saw little reason to give away value.
- Moreover, a healthy stock market in 2023 exacerbated the yawning gap between private and public market valuations. With stocks trading well, sellers and their shareholders preferred to hold on to assets rather than face dilution from selling at a depressed multiple.
- Finally, private equity exits were down 44% in value and 22% in volume. Besides cutting off a source of potentially attractive targets, deferred private equity exits meant that there were fewer marks for fair market value, further clouding price transparency.

Another factor behind fewer deals is increased scrutiny by regulators around the globe. The European Commission, the UK Competition and Markets Authority, and the US Department of Justice and Federal Trade Commission have eyed major mergers with skepticism, particularly tech and healthcare tie-ups. A total of $361 billion in deals have been challenged since 2022; most have closed, often with remedies. The dust has not yet settled on the evolving antitrust regulatory landscape as courts weigh in and new guidelines are proposed. National security concerns also remain a factor for sensitive sectors such as semiconductors or nuclear energy. In this environment,

Figure 2: Strategic deal multiples have plummeted for the second year in a row, even as public market valuations rebounded

Enterprise value–to-EBITDA valuations, indexed to 2014



Notes: S&P 500 enterprise value–to-EBITDA valuations represent the annual average multiple; strategic M&A valuations represent the median multiple for each calendar year
Sources: Dealogic as of January 16, 2024; S&P Capital IQ

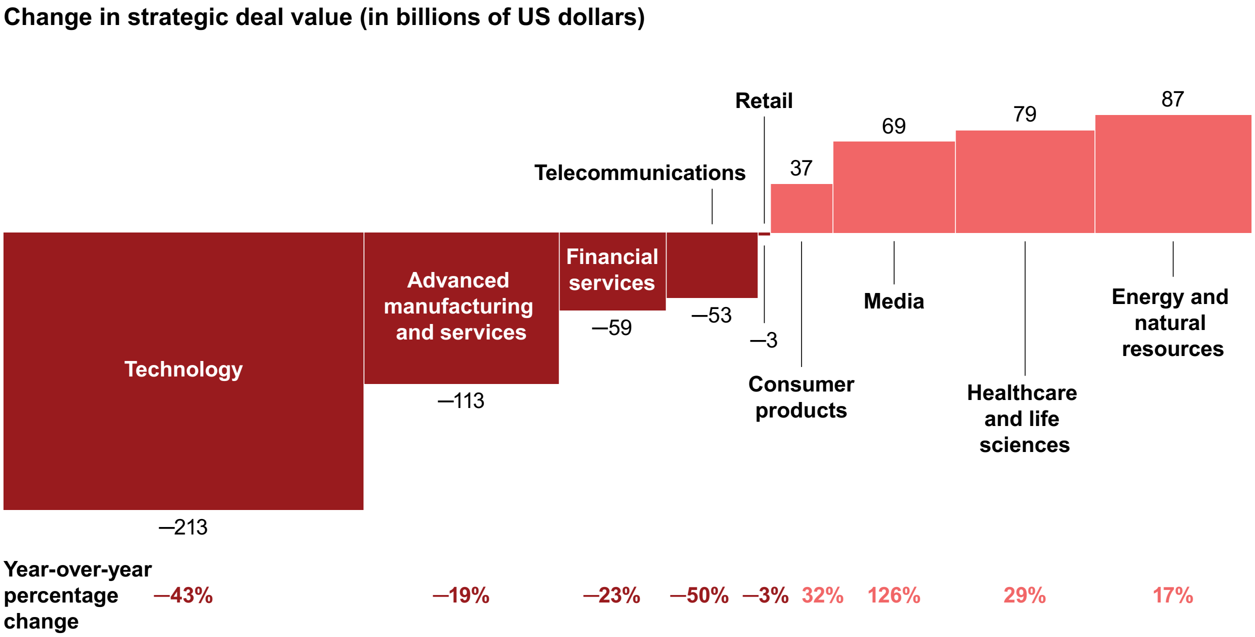
some deals may never get off the ground; others are more likely to be abandoned in the face of a challenge. We explore the impact of longer and more uncertain timelines in "Regulation and M&A: How Scrutiny Raises the Bar for Acquirers."

Looking beneath the surface

Across industries, the collapse of tech M&A was the biggest drag on strategic M&A in 2023 *(see Figure 3)*. Tech deal values declined by roughly 45% as median valuations, defined by enterprise value–to-EBITDA multiples, tumbled from 2021's high of 25 times to 13 times last year. Emerson's acquisition of National Instruments to expand automation capabilities and Cisco's bid for Splunk for its cybersecurity capabilities point to the ongoing demand for high-quality (and profitable) tech assets. Yet, as we've explored elsewhere, a higher-for-longer interest rate environment changes the deal math for most tech deals predicated on growth over profitability (see *Global M&A Report Midyear 2022* or *M&A Midyear Report 2023: It Takes Two to Make a Market*).

At the same time, a healthy dose of big-ticket deals supported a strong M&A year for energy and healthcare, prompted by differing sector dynamics. On the back of rising commodity prices, scale deals in energy and natural resources led the pack, with two megadeals in oil and gas and three additional major tie-ups comprising a total of about $175 billion in deal value, according to Dealogic.

Figure 3: Healthcare and life sciences as well as energy and natural resources M&A rebounded in 2023 but not enough to offset declines in tech and manufacturing



Source: Dealogic as of January 16, 2024

Companies in healthcare and life sciences continued their pursuit of growth via scope deals as represented by AbbVie's back-to-back deals for ImmunoGen and Cerevel Therapeutics in December and Merck's earlier acquisition of Prometheus.

The year saw a common thread of vertical dealmaking. Companies navigating a shock to the profit pool, whether a shift from internal combustion engines to electric vehicles or the rise of the Internet as a distribution channel, have turned to M&A to transform. Automotive companies are doing deals, such as Stellantis's investment in Lyten and Ford's acquisition of Auto Motive Power, to secure access to critical charging technology and to invest in their own recharging grids. In media, the value chain has been redesigned through merging of content and distribution, leading to new strategies for partnerships and alliances.

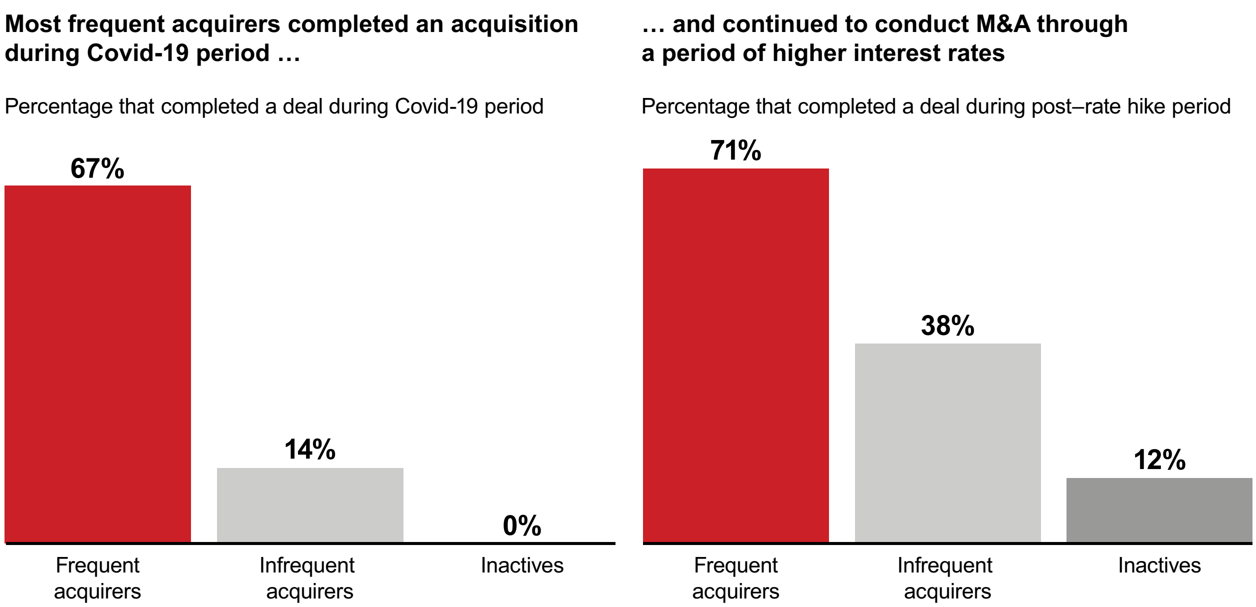
Vertical M&A can also reflect adaptive strategies in the face of industry consolidation. In the US, healthcare payers are using M&A to build health delivery networks, as exemplified by CVS's purchase of Oak Street Health this year.

Spin-offs remained an essential tool in portfolio transformation as well. For example, Danaher continued its reorientation toward life sciences via a $23 billion spin-off of its water business (Veralto) while acquiring Abcam and its protein consumables business for $5.7 billion. Sanofi joined other healthcare companies in announcing the separation of its consumer health business. Spin-offs are exceedingly hard to get right, but top-quartile performers show how valuable they can be (see “When a Spin-Off Wins Big”).

Notably, cross-border dealmaking was sustained as investors sought to enhance portfolios in more favorable markets. US buyers pursued more cross-border deals, up 34% in value, while domestic value rose 2%. Similarly, Brazil remained attractive to foreign investment, even as domestic dealmaking declined (see “M&A in Brazil: International Buyers Act While Domestic Acquirers Show Caution”). Asia saw a 60% increase in deals from the Middle East as sovereign wealth funds sought to build supply chains and facilitate energy transitions.

And megadeals made a mark in the second half of 2023, a possible signal that dealmakers were ready to look forward. For M&A observers, the timing wasn’t too surprising. Many companies had sustained high levels of proactive deal screening and outside-in due diligence even as deal counts fell. Some deals, such as Chevron-Hess, were yearslong in the making if opportunistic in timing. Others, such as Carrier’s acquisition of Viessmann Climate Solutions, reflected a bet on long-term trends.

Figure 4: Frequent acquirers stayed in the game throughout recent times of turbulence



Notes: Bain’s value creation study tracks performance (measured by total shareholder return) and acquisition frequency for 2,533 companies over the period between 2012 and 2022; Covid-19 period includes deals between second quarter 2020 and fourth quarter 2021; post–rate hike period includes deals from third quarter 2022 to third quarter 2023
Source: Bain M&A Value Creation Study, 2023

Finally, the year 2023 showed us a widening of the gap between how frequent acquirers and their inactive peers behave in M&A downcycles. You have heard us say more than once that frequent acquirers outperform throughout all economic cycles and tend to stay in the market through good times and bad (see "M&A in Times of Turbulence: Lessons from the Last Recession"). When we look back to the Covid-19 period, for example, we see that most frequent acquirers never stopped doing deals even as the market overall contracted. The same held true with the current market drop that began with the introduction of higher interest rates in June 2022 *(see Figure 4)*. Most frequent acquirers kept acquiring.

Most frequent acquirers never stop doing deals even as the market overall contracts.

Perhaps counterintuitively, today's down market signals a longer-term fundamental shift: Those frequent acquirers that stay active are pulling away from less acquisitive or inactive companies as measured by long-term total shareholder returns. Bain research shows that the benefits of frequency are only increasing over time. While others stay on the sidelines, it is companies that invest to acquire through cycles, deploying tested and tailored toolkits to transform their businesses, that ultimately emerge as the winners.

Kudos to frequent acquirers that stay in the game through thick and thin.

In the following chapter, we discuss how the 2023 M&A market dynamic has created a growing backlog of deals that await any sign that buyers and sellers can come to terms.

State of the Market

Looking Ahead: How the Big Backlog Will Shape the 2024 M&A Agenda

The processes, skills, and tools used in the past will be insufficient to stay ahead of the new game.

By David Harding, Dale Stafford, Kai Grass, and Suzanne Kumar

At a Glance

- Many of the assets that didn't come to market in the down year of 2023 will fuel active dealmaking in 2024.
- Corporates will sell assets that do not fit with their strategy, and private equity will sell aging portfolio companies.
- We expect more scale deals for consolidation before seeing a return to scope-oriented capability investing to drive growth.
- As competition intensifies, conviction and speed will be necessary to win deals and make them succeed.

History shows that downturns, market lulls, and times of disruption always produce newer, stronger competitors that used the mayhem to make market gains. The M&A downturn of 2023 will likely be no exception, but it is not too late to act.

We expect to see more deals get done in 2024—if for no other reason than there are a lot of assets that should trade. We call it the "big backlog." For example, while we often talk a lot about private equity (PE) dry powder, we also now have a backlog of PE portfolio companies that need to come to market. Many of these will be bought by strategics; others will be rolled into other financial sponsor portfolios. Likewise, our executive interviews suggest that corporates held on to assets that now should be divested and or spun out. These, too, we expect to come to market.

For the most part, corporate balance sheets remain strong, with lots of cash on hand, and the cycle of interest rate hikes seems, as of this writing, to have run its course. Any certainty around cost of capital will be a boon to dealmaking, and even more so will be a reduction in interest rates.

The M&A market has always had a bit of boom/bust nature to it. Experienced practitioners tell us that when the rebound in deals comes, it will most likely be fast—probably more scale deals first, as industry consolidation plays continue (see "M&A in Energy and Natural Resources: The Circular Economy Is Not Linear"), and then a return to scope-oriented capability investing to drive growth.

Of course, there are still some things that will hold deal volumes and values back. Regulatory scrutiny's greatest impact may be in stopping deals before they ever get started. At the same time, geopolitical tensions may well keep the lid on certain cross-regional deals. And, of course, having been hit by several recent "black swan" events (pandemics and war, to name two), we remain humble in our predictions regarding future events.

That said, we expect 2024 to be a busy year. Let's look at the M&A agenda that will give dealmakers the edge in the year ahead.

The M&A market has always had a bit of boom/bust nature to it. Experienced practitioners tell us that when the rebound in deals comes, it will most likely be fast.

Proactive and prepared

Why was deal activity in 2023 so anemic? The simple answer is that with valuations so low, sellers did not want to sell.

Indeed, a big complaint by *prospective* buyers that did fewer deals in 2023 was that there were few attractive assets, according to our executive survey. Yet, *successful* buyers had no complaint. That's because they created their own deal flow through proactive sourcing and screening. And these are the same companies that will be ready to capitalize when the big backlog of deals breaks in the months ahead.

Our conversations with executives point to two backlogs—corporate entities that have assets that do not fit with their long-term strategic priorities and PE portfolio companies that are aging in their funds and need to be sold. Neither group has been overly inclined to sell assets over this past year, but for very different reasons.

Corporates don't sell for a bunch of reasons, the top three being bandwidth, cash flow, and inertia. Selling businesses is a time sink like no other. Stressed-out management teams over the past few years have not had the luxury of cleaning up their portfolio. When they do want to sell an asset, there often are two complications: The nonstrategic assets still contribute cash flow, and their divestment will leave stranded costs behind. And in the absence of activist investors, it is just easier to leave things in place, especially when deal valuations are down and stock prices are up.

But our experience shows that hanging on to assets too long leads to value destruction and misallocation of capital and management attention. Disappointing prospective valuations can dissuade companies from making the call to sell. Then, a weaker version of the business ends up on the market a few years later. Yet rarely does a better market multiple compensate for a less attractive asset.

Meanwhile, PE funds must sell, but they have huge discretion as to when to do it. The drop in deal multiples led to a wait-and-see atmosphere in 2023 (see "Looking Back at M&A in 2023: Who Wins in a Down Year?"). But if we now live in a world of lower multiples and more disciplined buyers, how much more value is there in waiting?

Who will blink first? Certainly, a cash crunch will bring some sellers to the table. Divestitures of more solid businesses by companies reshaping portfolios (or PE funds compelled to exit) will be a bigger factor in breaking the logjam. No matter. Buyers and sellers who aren't waiting for others to make the first move will have the upper hand.

Value creation fundamentals

Benjamin Graham, the father of value investing, spoke of the "margin of safety." It was a warning to all investors that has as much currency in 2024 as it did in 1934. Higher interest rates have introduced a whole new generation of M&A analysts to the concept of cost of capital and the value of $1 of earnings in the future. This has led some acquirers to make a short-term shift to scale deals where the cash flows are nearer and more certain. For others, it has shut off the M&A tap for the time being. But we know that the market ultimately rewards growth.

With the slimmer margin for error, a new deal discipline is coming to the fore. Being more selective was the top adjustment that M&A practitioners made in the face of rising interest rates, according to our recent survey. While we generally applaud more discipline among dealmakers when setting a deal strategy, staying on the sidelines means missing out. This is the time to lean heavily into a more proactive due diligence to build proprietary insights and tee up merger integration (see "Tougher Times: Putting the Diligence Back in Due Diligence").

We expect competition for assets to intensify in the year ahead. As interest rates stabilize and even possibly decline, PE firms and M&A-cautious corporates will reenter the market. True, some competitive advantage will accrue to strategics that underwrite deals, with revenue and cost synergies not available to financial investors (that also have to contend with higher financing costs these days). But conviction and speed will be paramount. Successful buyers will use diligence to uncover a differentiated view on revenue and cost synergies and win the deal. And then, they will accelerate value realization in integration by using pre-close planning to rapidly mobilize and execute quick wins.

Sharpening the M&A capability for the next 20 years

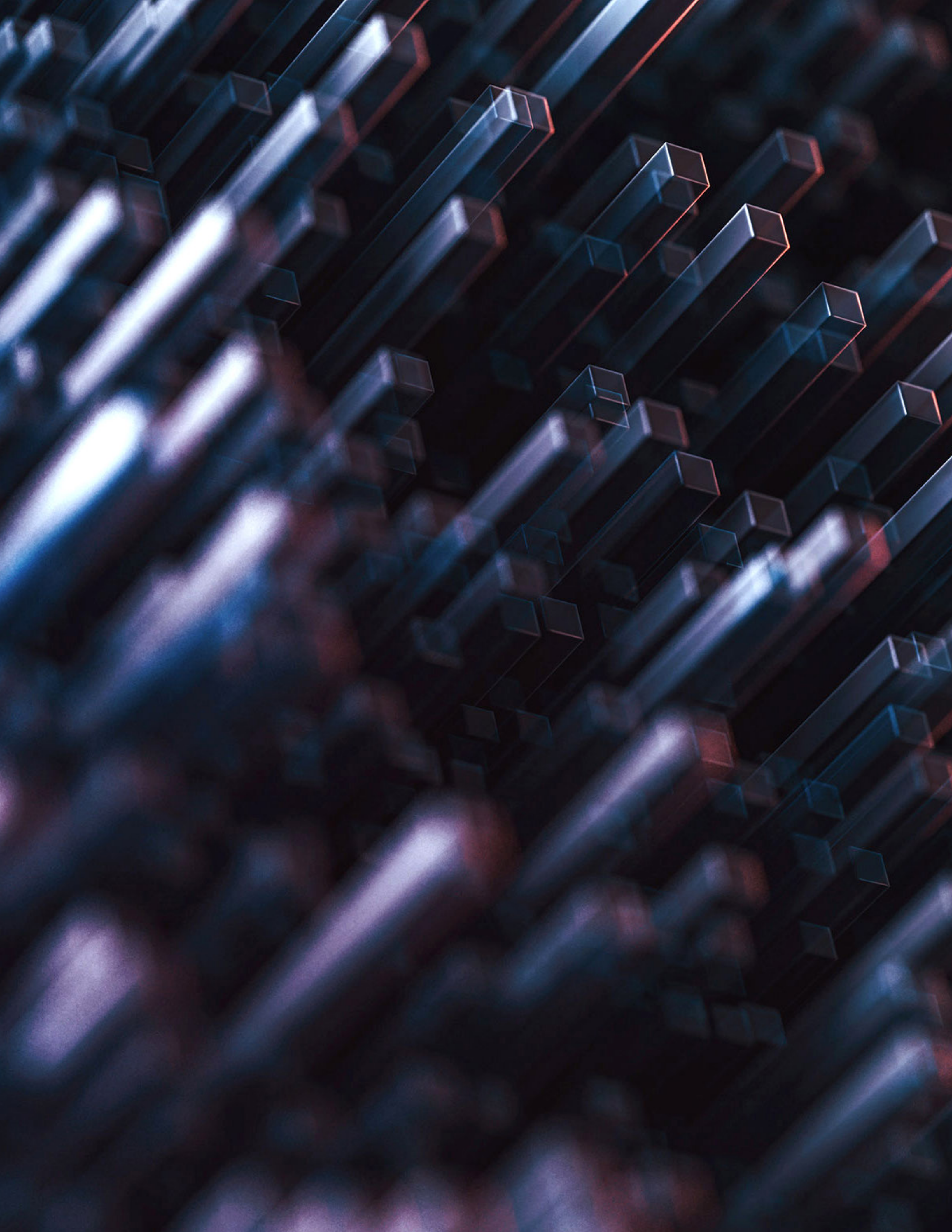
We believe that the processes, skills, and tools that successful M&A practitioners have used over the past few years will be insufficient to stay ahead of the game going forward.

Two huge implications of our chapter "Generative AI in M&A: Where Hope Meets Hype" are that the data collection and synthesis elements of dealmaking are going to become greatly compressed and commoditized. Similarly, cultural integration and management have entered a new era in insight and importance. And as deal teams increasingly look to developing markets and emerging technologies, old rearview-mirror diligence techniques are going to prove themselves inadequate for assessing and valuing new opportunities.

Meanwhile, amid more regulatory scrutiny, companies must elevate their deal strategy and integration approach. As we explore in our chapter "Regulation and M&A: How Scrutiny Raises the Bar for Acquirers," the prospect of a longer and more uncertain pre-close period raises the bar on early scenario testing for risks and a nuanced pre-close integration roadmap.

The most frequent acquirers, as always, will have a leg up on making this transition. In fact, the occasional acquirer may be shocked to see how much the world has changed—and wonder why they cannot win deals that they have a right to win.

Read on to learn more about the future of M&A across industries and newsworthy geographies.



Hot Topics

Hot Topics

Generative AI in M&A: Where Hope Meets Hype

Are you already behind the curve in artificial intelligence?

By Ben Siegal and Brooke Houston

At a Glance

- Generative AI use for M&A deal processes is low at 16% today, but it is expected to reach 80% over the next three years.
- Early adopters are using generative AI primarily to identify targets or conduct document review, and they are seeing benefits.
- 85% of current users indicated that generative AI met or exceeded their expectations.
- The biggest challenge for practitioners will be determining how to use generative AI to create a differentiated advantage.

The headlines seem relentless at times, yet the promise of generative artificial intelligence (AI) to transform so many dimensions of business is undeniable. But how are companies relying on it to improve their M&A capabilities? And what have they learned so far?

To answer those questions, we polled more than 300 M&A practitioners about their views on using generative AI in their M&A processes. New technology rarely lives up to the early hype, both in pace of change and magnitude of impact, but falling short of the hype today doesn't mean that generative AI tools won't offer benefits over time. Those benefits will be small to start, they will require investment to fit into a company's current processes, and they will improve if you inject proprietary data or insights.

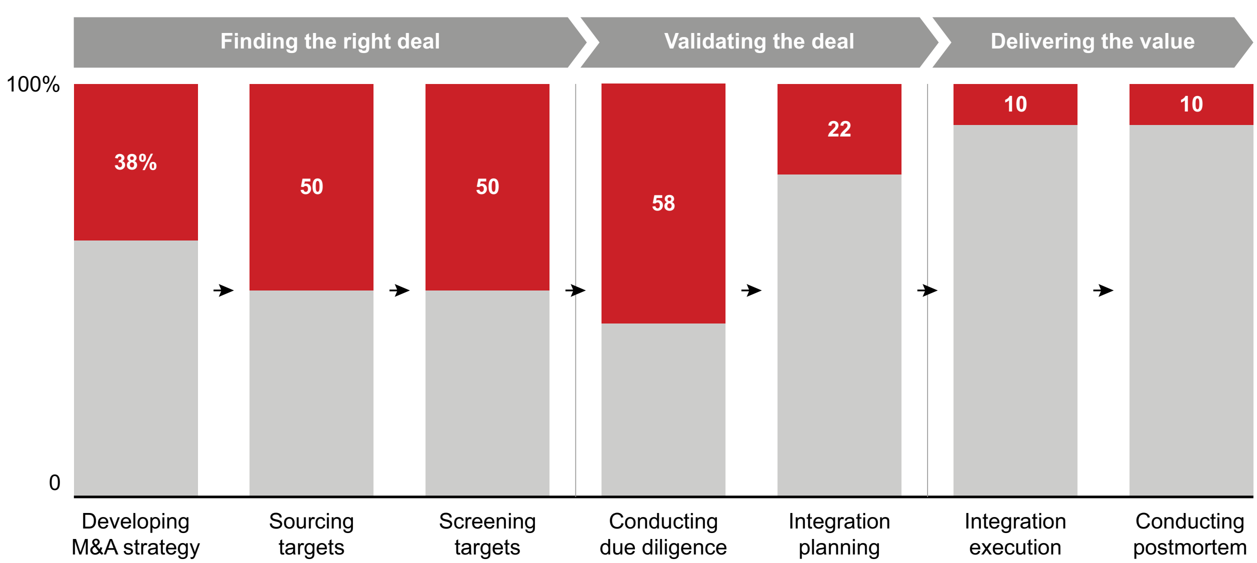
Only 16% of respondents are deploying generative AI today, and 16% of nonusers are likely to adopt it over the next 12 months. But 80% of respondents expect to use it within the next three years. The early adopters are primarily in technology, healthcare, and finance, and they tend to be larger companies with moderate M&A activity of three to five deals per year.

Presently, the technology is primarily used for idea generation in sourcing and reviewing data in diligence *(see Figure 1)*. "Generative AI in the screening process can pick up targets that would not be identified with traditional tools," said one M&A practitioner we interviewed. Another explained benefits in diligence: "Generative AI is helpful in parsing the mountain of data that needs to be reviewed. If you miss a critical fact, it can be a loss. Generative AI can be trained to parse material contracts and identify deviations from a model contract, saving time and helping to focus on problematic areas."

Another user discussed his company's use of third-party tools to manage a data room, including automated filing, advanced document search, and document question and response. Among those surveyed, 78% say that they achieved productivity gains from reduced manual effort while 54% saw

Figure 1: The use of generative artificial intelligence to date has mostly been in the early stages of the M&A process, from screening to diligence

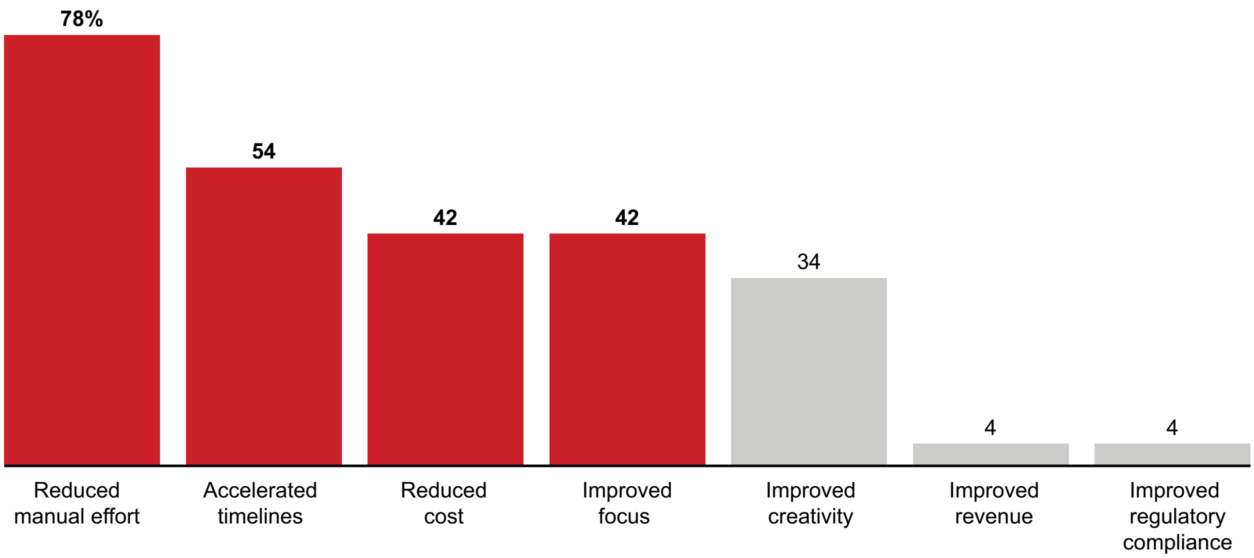
Percentage of M&A practitioners using generative artificial intelligence at each step



Note: Includes current users (N=50)
Source: Bain M&A Practitioners' 2024 Outlook Survey

Figure 2: Process efficiencies highlighted as the key potential benefits of using generative artificial intelligence for M&A

Most compelling benefits of using generative artificial intelligence for the M&A process



Note: Includes current users (N=50)
Source: Bain M&A Practitioners' 2024 Outlook Survey

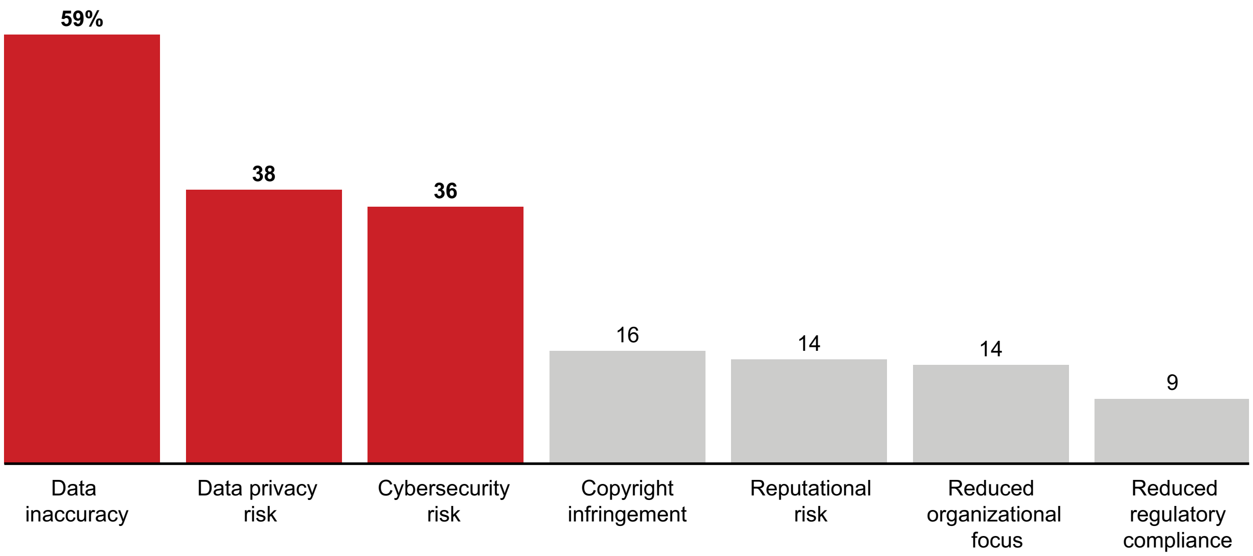
accelerated timelines and 42% saw reduced cost and improved focus *(see Figure 2)*. Fully 85% of those early users report that it met or exceeded their expectations.

M&A practitioners were quick to point out the challenges: "In terms of realizing benefits, it takes us as much time to go through generative AI as it saves us in writing summaries or crafting reports," said one user. "We see this period as an opportunity to get up to speed on the technology." Others mentioned data inaccuracy: "While we expect this to get better, we now need to review or even redo the work completed by generative AI," explained one user. Another addressed the challenges of using public information: "It's not an issue in idea generation during screening, but it is a challenge in steps like valuing deals." That user believes it is unlikely that targets will allow potential acquirers access to internal data to input through generative AI tools. These shortcomings were among the issues cited by nonusers. Among those surveyed, the biggest potential risks cited were data inaccuracy, privacy, and cybersecurity *(see Figure 3)*.

And there is another big word of caution. Being more efficient means that you can look at more deals, but it doesn't necessarily mean you'll make *better* deals. Yes, in some situations, research that took weeks to compile now can be performed in an hour, but it's the value-added activities that you do with the extra time that make a difference. And M&A practitioners will realize that they can't use generative AI for everything; they need to know how they can differentiate. That starts by

Figure 3: Data inaccuracy, privacy, and cybersecurity were the most frequently identified risks to using generative artificial intelligence for M&A

Most concerning risks of using generative artificial intelligence in the M&A process



Note: Includes non-users (N=256)
Source: Bain M&A Practitioners' 2024 Outlook Survey

understanding their own M&A process strengths and where they can extend them with this rapidly evolving technology.

Indeed, companies that get the most out of generative AI will invest early to identify the efficiency gains that could deliver a competitive advantage today. Using it for targeted purposes now is a way of building familiarity and setting the stage for higher-impact uses in the future. For example, technology from third-party vendors, without proprietary data or models, is sufficient today, but ultimately, most companies will need to build a more sustainable competitive edge.

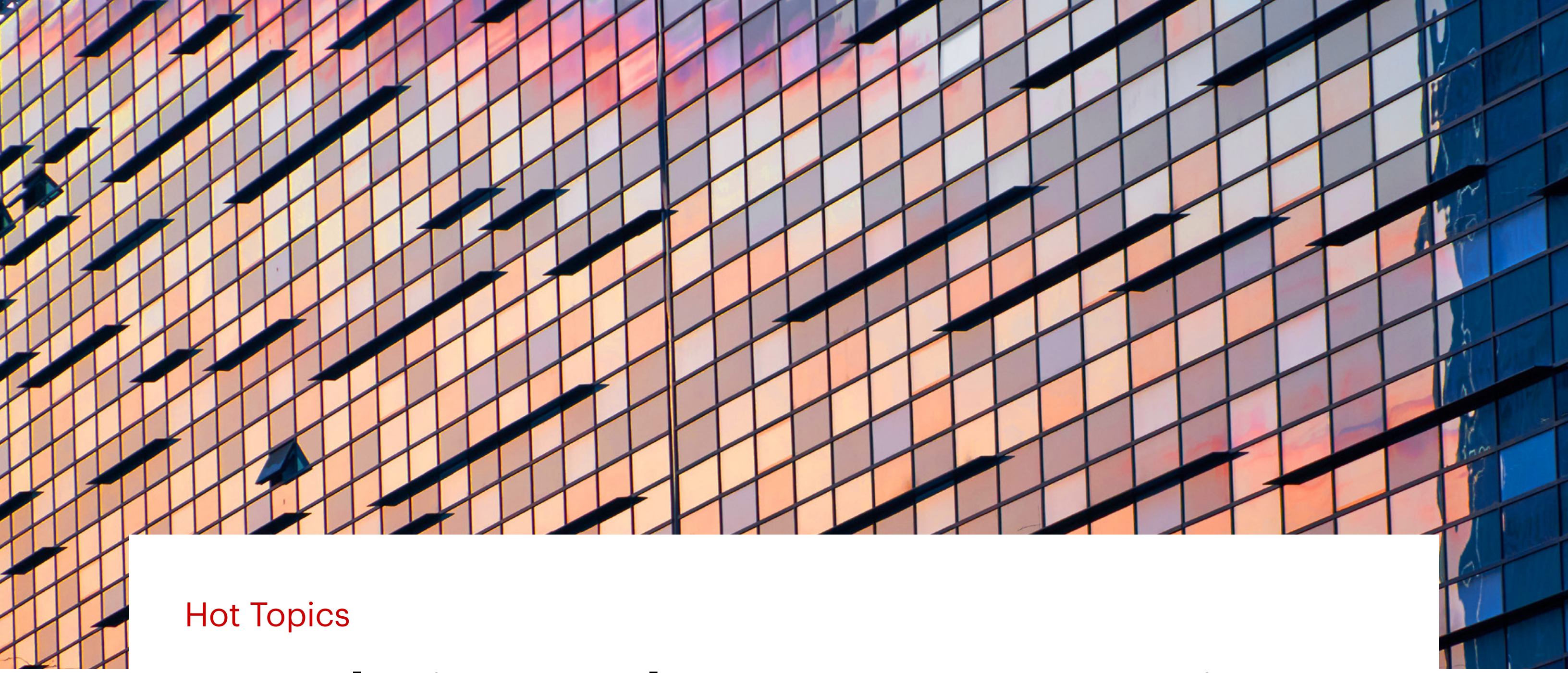
Dealmakers that haven't embarked on the generative AI journey to improve their M&A processes can start by answering three fundamental questions.

Where will generative AI's benefits provide the most value for our organization? This is one situation for which *start small* is not always the right answer. Rather than starting small and scattered, look for targeted uses rich in manual effort, repetitive tasks, or creative idea generation. Test and learn your way into generative AI capabilities by applying it where you can reap real benefits. For example, an acquirer could create a tool for a newly merged salesforce to be able to respond to requests for proposals and customize offerings and pitches for the combined company.

Where can we build differentiation over time? Think now about how you could build a sustainable competitive edge. Start by preparing your data. Any frequent acquirer likely has a significant amount of relevant data available today, though it may be in difficult-to-use formats or dispersed across multiple sources. Develop a plan for how to use your data, and begin gathering it now. Your company's insights can be amplified as they're built into proprietary tools.

How will we mitigate risks? Today's generative AI adopters pay close attention to the known issues associated with new technologies. They acknowledge that changes will undoubtedly take longer than expected and require thoughtful management, careful direction, and clear guardrails. For example, data accuracy matters when you are making a big M&A investment. With data inaccuracy at the top of the risk list, prioritize tasks for your generative AI tools to complete that are relatively easy to audit, and do not bypass the important step of review by a human expert. As the technology evolves, you can expect your process to do the same.

Ultimately, don't lose sight of the biggest fact of M&A life: The best acquirers have over time and through a steady flow of deals perfected the fundamentals of dealmaking. With best-in-class M&A strategies, screening, diligence, and execution, they will consistently outperform less experienced and less rigorous peers. Generative AI can't replace a skilled M&A practitioner in the driver's seat.



Hot Topics

Regulation and M&A: How Scrutiny Raises the Bar for Acquirers

As regulatory review periods get longer and less certain, companies must elevate their deal strategy and integration approach.

By Suzanne Kumar, Adam Haller, and Dale Stafford

At a Glance

- Regulatory scrutiny can extend the pre-close period from three months to up to two years.
- If a deal may garner regulator attention, buyers should adjust transaction strategy for longer timelines and more uncertainty.
- A long pre-close integration plan should differentiate preparations for earliest and latest pre-close periods.
- More than ever, dealmakers need to plan for the worst and prepare for the best.

In 2022 and 2023, at least $361 billion in announced deals were challenged by regulators around the globe. And among the $255 billion of those deals that ultimately closed, nearly all required remedies. Concerns raised by the European Commission and the UK's Competition and Markets Authority (CMA) caused Microsoft to restructure its $69 billion acquisition of Activision Blizzard. Today's US Department of Justice and Federal Trade Commission (FTC) prefer litigation, and the legal outcome often is a court-ordered remedy. For example, the FTC's challenge to Amgen's $27.8 billion purchase of Horizon Therapeutics was resolved via a consent order—and after months of delay. Rising scrutiny and lengthening review timelines have caused a handful of companies to withdraw their deals.

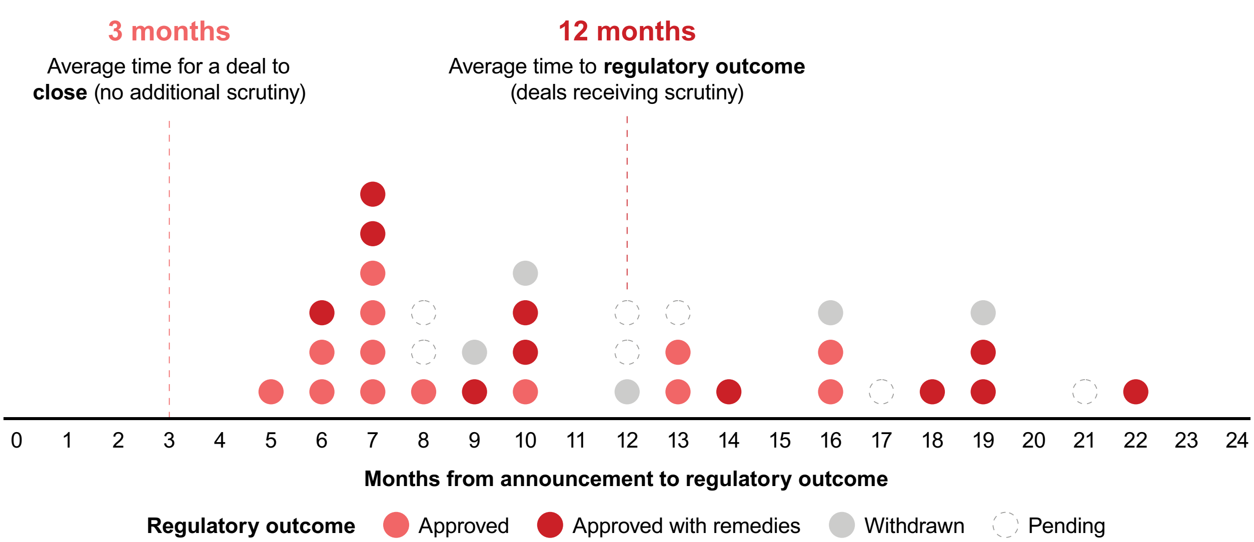
Yet the simple reality is that buyers still need to do deals to advance strategic goals, and most contested deals do make it to close. In today's regulatory environment, however, with approval processes for contested deals becoming longer and less predictable, companies contemplating large, game-changing M&A must have conviction and fortitude.

Indeed, timelines for scrutinized deals have extended considerably. The pre-close period, that crucial and vulnerable phase between announcement and close, can stretch from quarters to years. Most deals close within about three months. Regulatory scrutiny adds three to six months to the deal timeline, but more complicated deals often take twice as long, up to two years *(see Figure 1)*. This changes the calculus for buyers and sellers alike. One exception: Brazil. Regulators have intentionally accelerated approval for deals to 17 days on average in 2023, 90% faster than just two years ago (see "M&A in Brazil: International Buyers Act While Domestic Acquirers Show Caution").

Meanwhile, the regulatory climate continues to evolve. For example, regulators have differentially focused on deals in technology and healthcare, given wider concerns about competition and consumer well-being in those industries. For example, the UK's CMA required Meta to divest Giphy because of the potential impact on advertisers. Adobe canceled its proposed deal for Figma as multiple regulators challenged the likely effects on designers. In healthcare, the FTC is looking

Figure 1: The average time to reach a regulatory outcome for scrutinized deals is 12 months

Number of deals scrutinized by US and European regulators



Notes: As of December 18, 2023; includes deals announced January 1, 2022 – July 13, 2023; includes one deal that received scrutiny and was withdrawn for nonregulatory reasons; Microsoft-Activision has been approved with remedies but was appealed by the FTC
Sources: Bain proprietary database major deals (US, UK, EC); Dealogic

beyond product-to-product competition and taking into consideration the buyer and seller's full therapeutic portfolio in its extensive review of Pfizer's acquisition of Seagen and its oncology treatments.

New strategies for today's playing field

Even as the rulebook changes, companies looking for growth and transformation are staying in the M&A game. The most successful are adapting their strategies to navigate twin uncertainties: Will the deal close? And when?

Such doubts can be paralyzing, leading a buyer's executives to say one thing (we are confident that the deal will close on time) while they do another (plan for the longest possible close date). At the same time, the target's management is doubly distracted under a contested deal. They can't take for granted that the transaction will close. They need to commit leadership and planning resources to both integration planning and the alternative.

So, how to adapt for a potentially tricky deal? The answer begins with conviction on the strategic rationale for the deal and a watertight value creation story. The best-prepared acquirers use extensive diligence to wrestle the deal thesis to the ground, confirming a base case with plenty of upside to withstand the twists and turns of deal approval. With clarity on value, here's how buyers can prepare for a disappointing outcome and lay the groundwork for a positive one.

Craft the transaction for the realities of today's regulatory environment

For deals of strategic importance that might draw regulator attention, buyers should confront the possibility of a long pre-close period and even deal abandonment. Can the deal thesis support a worst case of poor base business performance, extensive attrition, and a moving close date? How can companies improve the odds of getting to close?

Stress-test the deal model around key value drivers. In a scope deal predicated on talent, would the deal thesis hold if few leaders remained or if a critical function saw high turnover ahead of day one? Should more generous retention packages be baked into the deal model? For a scale deal, what investments would be required during the pre-close period to ensure rapid synergy realization, and how would that change the deal economics?

Consider remedies. Are there viable remedies acceptable to buyer and regulator? A transformative portfolio strategy might necessitate proactive divestitures to clear the path for big-ticket dealmaking down the road. The European Commission has remained open to remedies. US regulators have been highly skeptical of divestitures and other remedies, but courts have been more open. For example, Amgen's acquisition of Horizon was permitted via a consent order with conditions around product bundling between Amgen and Horizon's offerings.

Use the deal agreement to mitigate financial risks. Similar to other elements of the deal structure, terms and conditions can be a value lever negotiated between parties. Deal covenants can create mechanisms to adjust the purchase price beyond working capital pegs—revenue and profit, for example. Deal cancelation fees ensure that both parties have a financial incentive to close.

Gird the organization for the longest close date

Play the long game when it comes to communication and change management. When a close is distant and uncertain, the excitement of a deal announcement can quickly fade into fatigue and stasis. Be ambitious in sharing a vision for the combined company. Support individuals and teams with a long-term view on pre- and post-close periods.

Quickly align both parties on the overall vision for the deal and the integration strategy. Besides setting a common course, this exercise is a simple way to engage target leadership in the critical early days (the first few weeks and months). First impressions matter. And target leadership will be essential to steering the acquired business across any bumps until close. Setting a tone of collaboration will pay dividends across a long pre-close period and beyond.

Know who matters, and give them a reason to stay. Based on the deal thesis, work quickly to identify the critical leaders or other talent who will make it work while keeping the base business on track until close. Then, figure out what they care about, and give them a reason to stay. Overinvest in financial incentives, and openly seek to win their hearts and minds. Use the shared vision for the combined company and their role in it to shore them up over the long period of vulnerability until close, and don't let up post close.

Use the pre-close integration planning to set a tone of collaboration and excitement. The integration management office makes an excellent culture lab where each side can get to know one another, establish shared goals, and build cross-company support over protracted timelines. At the same time, it's important to keep both companies focused on the base business, which is particularly hard for deals under review. Management often will have to balance business-as-usual plus uncertain integration timelines and the possibility of a canceled deal with also planning the divestitures required to close.

Establish spending guardrails to optimize business-as-usual and integration planning. Tough decisions lie ahead. Should a company invest in 90 days of integration planning or focus on delivering better earnings? Should it continue longer-term capital investments or suspend them in anticipation of the combined company's priorities? Contemplating the longest timelines will support the right medium-term trade-offs.

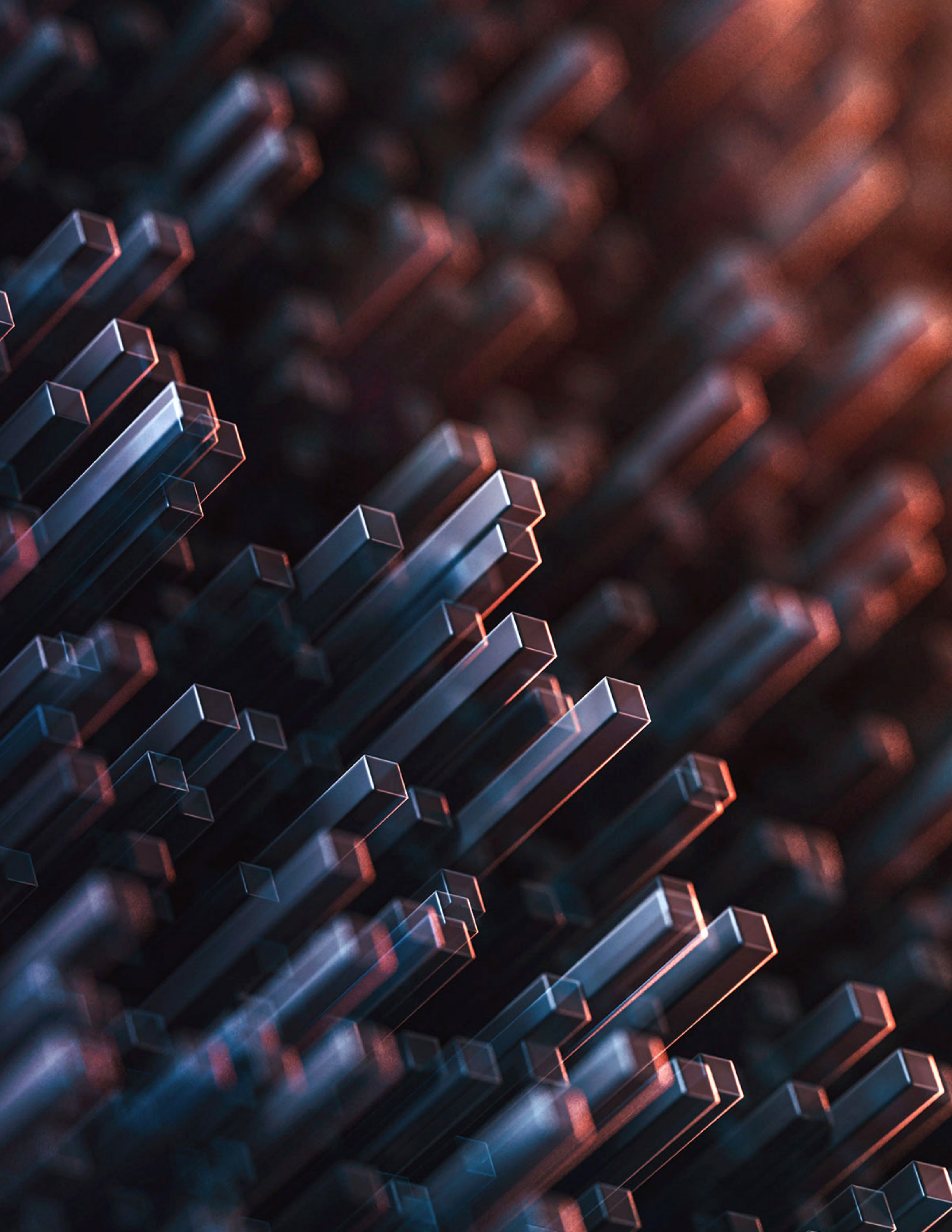
Plan for the earliest available close date

Uncertainty can be paralyzing. But even a long pre-close period isn't infinite. The default mode will be to underinvest resources and teams' time until there's more clarity on the outcome, but that leaves value on the table. Executives can be overly conservative in using data and analytics to plan for integration and make short-term vs. long-term financial decisions, such as staying under budget on retention or deferring integration planning costs. Use the integration strategy to guide where and when to lean in on pre-close planning.

Launch no-regrets planning. Much planning can happen from deal announcement onward: This includes defining the long-term operating model, building the foundation for process and technology integration, and planning the nuts and bolts of day one. Of course, timelines must be flexible. One company recently preparing for a major deal considered different scenarios for closing within 6 months to 24 months. The extended timeline incorporated lower-effort phases to accommodate certain regulatory milestones. In all scenarios, the company would be ready for a smooth close and day one.

Initiate clean teams on major sources of value as deal close approaches. Clean teams get a jump start on synergy realization, preparing data that allows management to make quick decisions and take action upon close. Third-party clean teams can readily identify customer overlaps or dig into procurement contracts without jeopardizing current employees. As deal close nears, company subject matter experts can join in to validate the details and support post-close planning. One caveat: In a contested deal, it can take months to navigate the logistical and legal complexities of information sharing amenable to both parties and their counsel. Start early.

When to walk away? Only you and your board can make that decision. But if you are doing a big deal with a high probability for scrutiny, you and your board will likely ask yourselves this question at some point. So, it is more critical than ever to have conviction on the front end of the deal about the circumstances under which you should walk. This means rigorously stress-testing your model so that you can say confidently that the deal still makes sense, even in your worst-case scenario.



Industries

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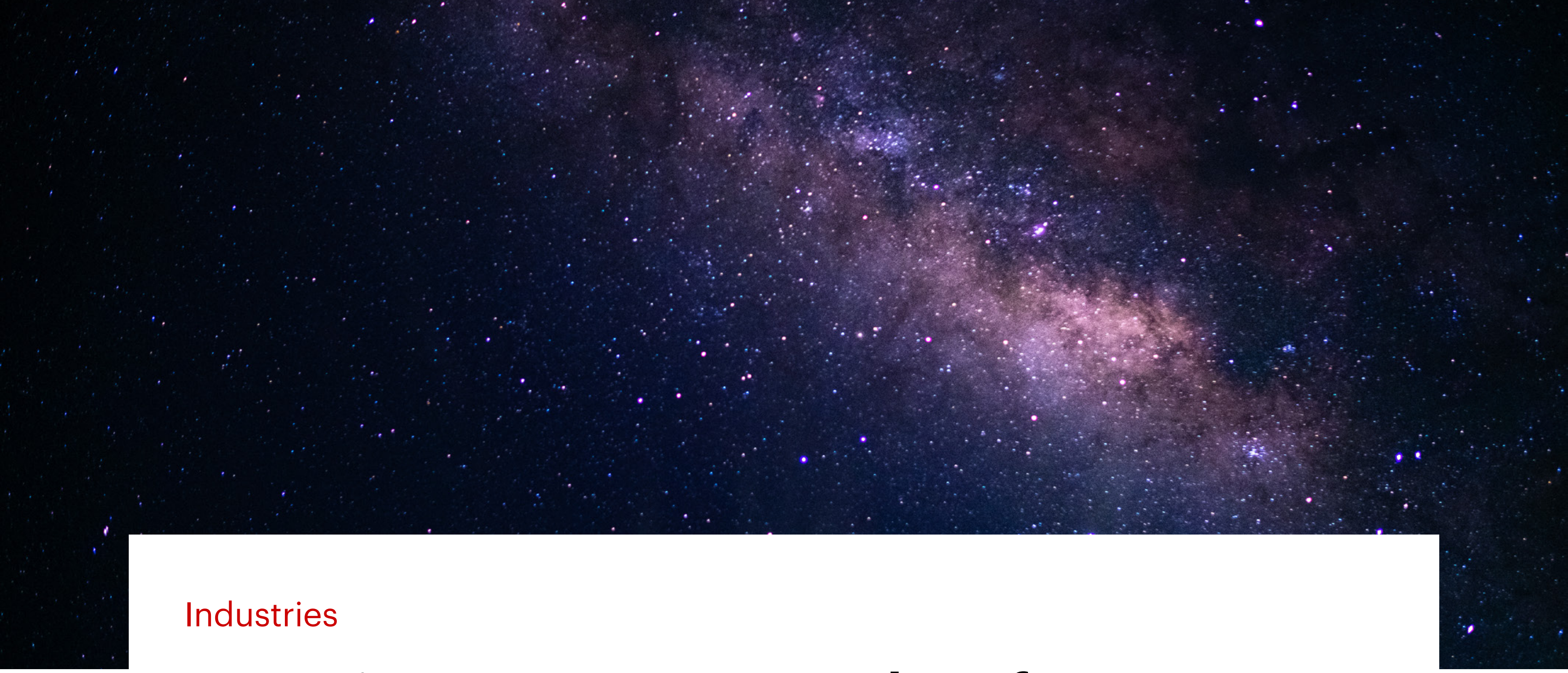


Industries

M&A in Aerospace and Defense: Four Themes Shaping Space Industry Deals in 2024

As private funding drops, new government priorities open opportunities.

By Blaine Pellicore, Erich Fischer, Clark Herndon, Matthieu Vigneron, and Austin Kim

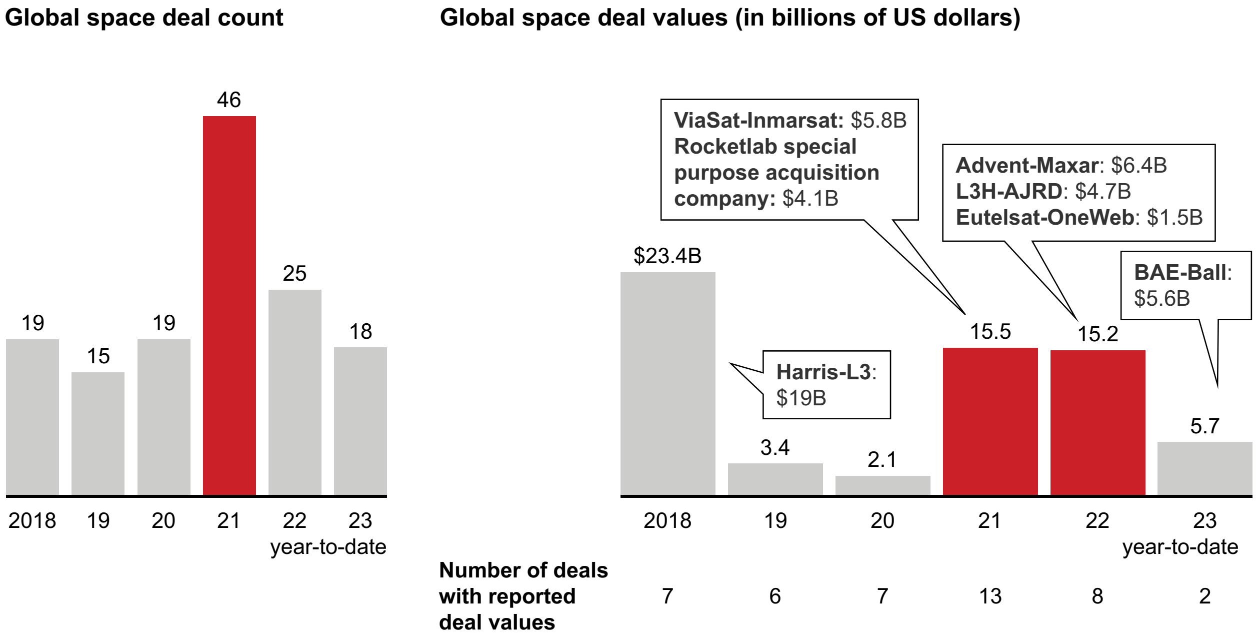
At a Glance

- Space access and capability is now a national security and geopolitical imperative for governments.
- SpaceX continues to drive down the cost of launches, pressuring other launch providers and opening further space opportunities.
- Private investment in space has declined drastically, increasing M&A's role as a tool for growth and innovation.
- Looking ahead, we believe that portfolio reshaping and lower valuations will spur M&A activity.

In 2023, the space industry saw a string of multibillion-dollar deals announced in prior years officially close *(see Figure 1)*. Among the largest of those were ViaSat's $5.8 billion acquisition of Inmarsat, Advent's $6.4 billion purchase of Maxar, and the $1.5 billion Eutelsat-OneWeb merger.

As we look forward to 2024, we see the space industry entering a new era triggered by a higher interest rate environment and defined by reduced costs for space access and the emergence of space as a fully contested geopolitical arena.

Figure 1: Volume of space deals peaked in 2021, and value was boosted in 2021–2022 by large deal announcements, many of which closed in 2023



Notes: Value and volume based on deal announcement date; 2023 year-to-date as of October 31, 2023
Source: Infobase DM&A

As these and other forces play out, a reconfigured industry is coming into focus, with established players reshaping their portfolios and fragmented companies finding the need to consolidate.

Strategic buyers have a unique opportunity. Technology and teams that benefited from the surge in private financing will find it more difficult to develop space technology and build businesses in a capital-constrained world. Valuations are coming back down to earth, and buyers have the chance to acquire to accelerate their own capabilities and innovation at a price that more accurately reflects value. Also, there will be opportunities for portfolio restructuring as governments select key architectures and companies pick where they will focus their efforts. There will be strong industrial logic for building capabilities through acquisitions of orphaned business units from competitors.

For their part, growth investors can take advantage of the repricing of the long tail of space technology companies by selecting assets that combine a differentiated technology with a realistic business model. Many space companies will need capital infusions to bring their technology to market, and they will be more willing now than during any time in the past five years to open themselves up to robust diligence.

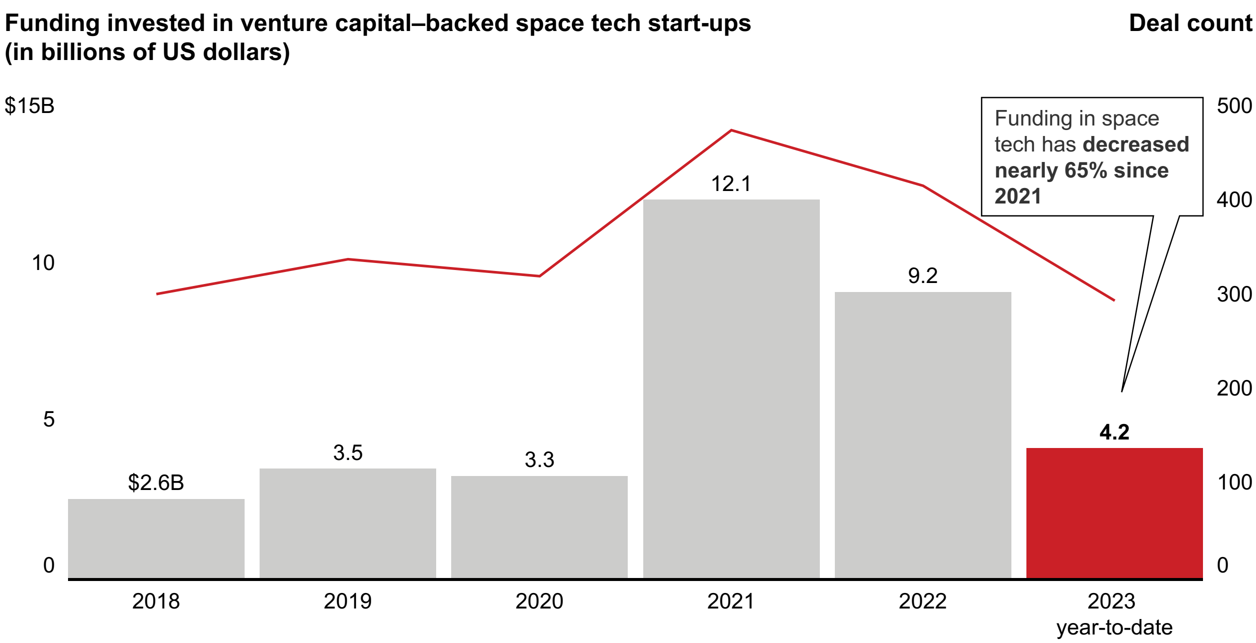
Consolidators have an opportunity to develop the space supply chain by building out merchant suppliers in the key technology categories for winning architectures. Across the industry, the best companies will invest to understand which segments of the value chain have the right prospects for growth and profitability—and that's where they'll focus.

We see four major themes in the space industry that will be reflected in M&A activity in 2024 and beyond.

Space tech is getting less funding. The year 2021 set a record in space funding, with more than $12 billion invested in space companies. In 2022, that amount dropped to $9 billion, and then the first three quarters of 2023 brought that investment total significantly lower, to only $4.2 billion *(see Figure 2)*. Many space companies that went public in recent years continue to struggle, with most performing below their initial listing price, and many receiving letters of impending delisting.

The lingering higher interest rate environment will likely have a continued chilling effect on space companies' ability to raise additional capital. The majority of space companies are "default dead"—that is, they are not profit-generating entities—given the high capital costs and longer-horizon deep-tech nature of their product.

Figure 2: Funding for space tech companies has fallen drastically since 2021



Notes: 2023 year-to-date as of November 6, 2023; data includes space travel, satellite communication, and aerospace
Source: Crunchbase

Despite the tough funding environment, there are worthwhile technologies and teams within these companies. Larger established players could benefit from fire-sale pricing on tech and teams that are unable to raise money. These larger companies with cash flow supported from other parts of the portfolio could use this as an opportunity to accelerate future revenue opportunities from space by harnessing the innovations from a generation of space companies.

SpaceX continues to drive down the cost of space launches. SpaceX completed the second test flight of its superheavy Starship launch vehicle. While the test did not complete all objectives, it was an improvement from the first test and an indication that the company is getting closer to fielding a vehicle that could reduce cost per kilogram to low Earth orbit (LEO) by 50 to 80 times.

This marks the commoditization of space launches, and it will put substantial pressure on other active launch providers and those that hope to compete but have not yet successfully launched. It will also allow for more business cases to close for companies that hope to offer services in space—everything from communications and remote sensing satellite companies to commercial space stations, on-orbit manufacturing, and asteroid mining operations.

The drastically lower launch costs will likely cause a meaningful shuffle in established space players' portfolios, with a surge of new entrants buying winners or selling off their space-focused business units as the speed of innovation and competition intensifies. Adding to the opportunities: The European Space Agency moved in November to open its launches to competition as of 2025.

LEOs fully emerge as a national security priority. The US Space Development Agency (SDA) is providing more than $8 billion in funding to the layered network of military satellites known as Proliferated Warfighter Space Architecture (PWSA). It is the government's first major investment in proliferated LEO and the cornerstone of the US Department of Defense's (DoD's) future communications and threat detection capabilities.

Similarly, Europe has adopted in 2023 the IRIS² project (Infrastructure for Resilience, Interconnection and Security by Satellites) to secure the EU's resilience to and capacity to answer threats. Nearly half of the €6 billion estimated budget for this LEO communications constellation will be covered by EU and ESA funding, the rest coming from the private sector.

This architecture attempts to achieve space resiliency through rapid replacement and redundant satellites that are lower cost than the satellites that make up much of the DoD's space assets today. The SDA is now making substantial investments, including a $1.5 billion Transport Layer award to Lockheed Martin and Northrop Grumman.

The procurement methodology for the SDA involved starting with a wide net of smaller awards to a greater number of companies with the intent of narrowing the number and increasing the award size. As winners and losers emerge, there will likely be portfolio restructuring, and those that win will be looking to create the most effective strategy for delivering. That will mean supply chain vertical integration in some areas and the emergence of component merchant suppliers in others.

Those that lose will be looking to divest capabilities that will no longer be relevant for their portfolio.

Additionally, the desire to create a secure domestic supply chain for higher-rate production satellites could provide opportunities for roll-up acquisition plays for critical parts of the supply chain, especially around hardened and secure defense electronics and secure subsystems.

Lunar and deep space is the next frontier for nation building. NASA's Deep Space Exploration programs, which include the Artemis and Mars campaigns, will allocate nearly $40 billion in funding over the next five years to advance the US's presence on the moon and beyond. (Because of the Outer Space Treaty, the DoD has been less explicit about any aspirations for military outposts in space.)

India completed its historic lunar landing on the south pole of the moon, and Russia is recovering from its recent failure of the same objective. More important: The Chinese Lunar Exploration Program is the most ambitious and well-funded effort in China's history to establish a permanent base on the lunar surface.

The infrastructure needed to build new habitats in cislunar orbit, the lunar surface, and beyond will require new industrial capabilities. Many companies are emerging to provide these services, but starting in 2024 and continuing over the coming five years, there will likely be a first round of consolidation as the exact technologies needed emerge and as the timelines for public funding become clearer.

For M&A teams, this is the moment to create lasting value for years to come. The best companies will develop focused and tailored investment theses that demonstrate how a potential deal supports their long-term space strategy. In addition to the robust due diligence capabilities that help an acquirer gain confidence in a target, winners will develop their ability to partner and invest in a way that will unlock capabilities while fostering the more innovative and agile elements of a target's culture. For instance, since acquiring Millennium Space Systems, Boeing has largely allowed the subsidiary to operate at arm's length, retaining its more rapid prototyping capability, which provides a model for innovation across Boeing's space portfolio. In return, Boeing has shared its manufacturing and mission assurance expertise to help Millennium to scale. Companies need to find the right fit to their space portfolio and bring them in without destroying the capabilities that may require years to fully mature and commercialize.

Industries

M&A in Automotive and Mobility: Deals to Secure a Place in the Industry's Future

Companies are turning to M&A to ensure access to critical capacities and materials in the value chain.

By Dominik Foucar, Ingo Stein, Pedro Correa, Ted Rouse, and Klaus Stricker

At a Glance

- Players pursue M&A to secure access to critical materials for electric vehicles and to create integrated, connected customer ecosystems.
- In 2023, original equipment manufacturers (OEMs) used M&A to move upstream and secure access to the battery value chain.
- Industry transformation is changing the role of OEMs, and M&A remains a relevant tool as direct sales models emerge.
- Looking ahead, internal combustion component businesses will consolidate amid cost pressure and declining volumes.

The year 2022 was all about speed as many original equipment manufacturers (OEMs) turned to joint ventures and alliances to hasten the arrival of the future in what we call the "5 RACES":

- **R**eal customer focus;
- **A**utonomous driving;
- **C**onnectivity and digitization of vehicles;
- **E**lectrification of powertrains; and
- **S**hared mobility.

They pursued deals to hasten the development of batteries, vehicle electrification, and advanced driver-assistance systems while preparing their legacy internal combustion engine businesses to either become a steady source of cash or be spun off in favor of investing in tomorrow's businesses.

Those deals have been effective, and they are continuing. But now, OEMs have encountered big curves in the road that require them to hone their dealmaking skills. Among the biggest is seeking ways of securing access to the critical materials for batteries, including rare earth metals.

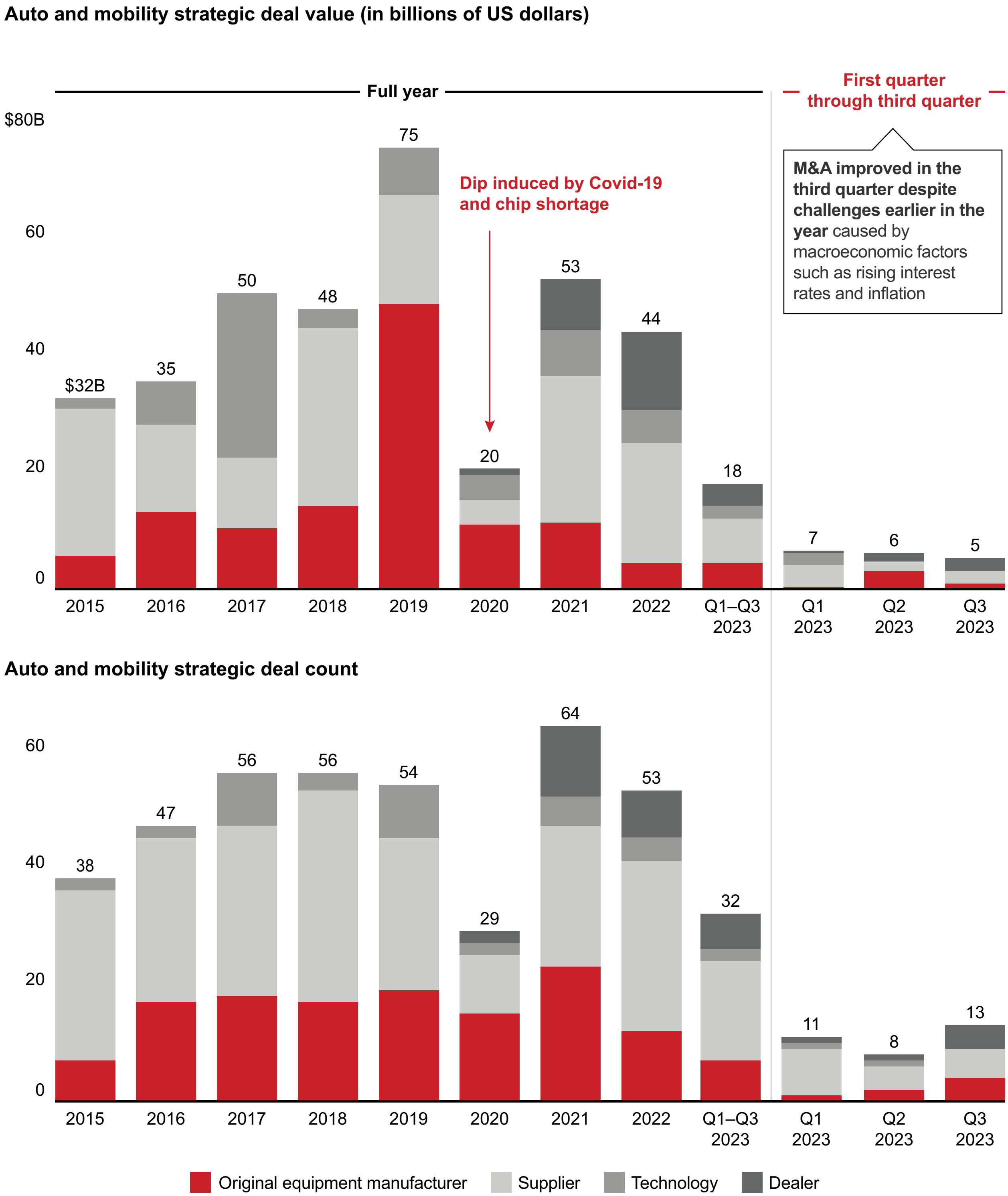
Deal activity was muted in 2023 because of the continued uncertain macroeconomic and geopolitical environment, with value dropping by 59% and volume dropping by 40% *(see Figure 1)*. Yet companies across the automotive and mobility value chain have accepted a new fact of life in this industry. M&A was not routinely used by players as a strategic element of their business. Now, as they grapple with new challenges, companies that don't participate will face a difficult future.

They'll need deals to help them with two major imperatives:

- the major changes in the automotive value chain resulting from the shift to electrification; and
- the need to build integrated, connected ecosystems with customers—something that requires them to develop entirely new business models.

The unfolding transition to electrification is requiring companies to consider the full array of M&A, from acquisitions to divestitures to restructuring enterprises to steering businesses through joint ventures and partnerships. This is increasing the percentage of scope deals in the auto industry *(see Figure 2)*. As regulations such as the EU's looming ban on fossil fuel vehicles by 2035 and moves such as the US Inflation Reduction Act generate momentum for electrification, companies are looking for ways to secure their place (and safeguard their profits) in a transition that, until now, has been slower than expected. Finding that security starts by getting the cost for electric vehicles (EVs) right, with batteries as the most expensive item. This holds true for both newly established pure EV players such as Nio, Lucid, and Rivian, as well as established OEMs that must maintain two drivetrain businesses in parallel.

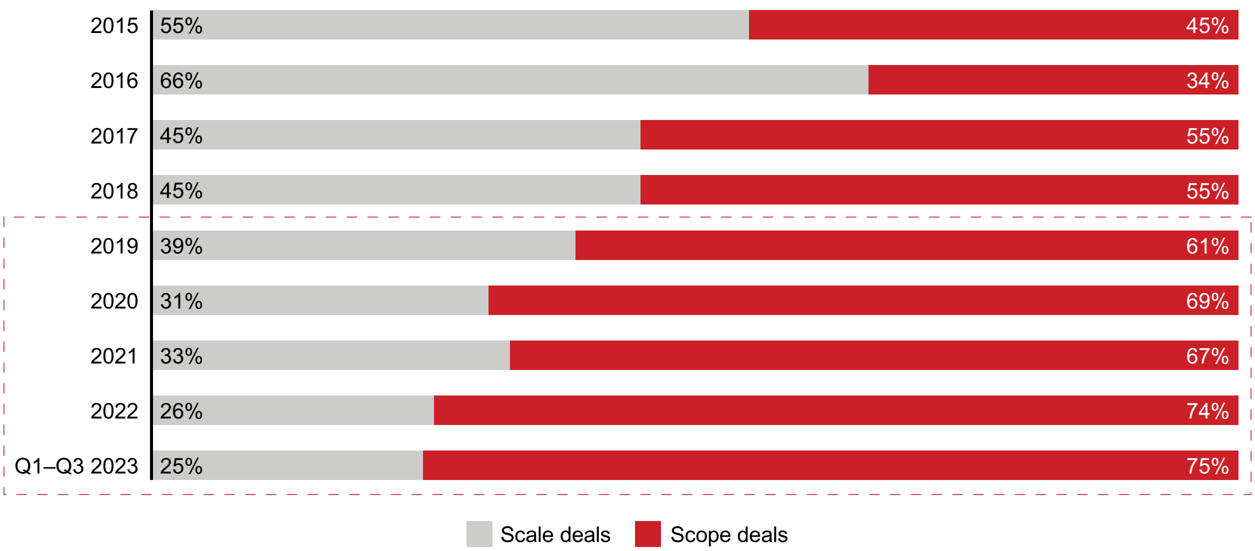
Figure 1: Auto and mobility deal volume increased in the third quarter vs. the previous two quarters, but deal value has fallen since the first quarter



Note: 2023 includes first quarter through third quarter only
Sources: Dealogic; Bain analysis

Figure 2: Over the past five years, expanding scope has been the major impetus for strategic M&A deals in the auto and mobility industry

Auto and mobility strategic deals greater than $100 million



Note: 2023 includes first quarter through third quarter only
Sources: Dealogic; Bain analysis

Hence, it is not surprising that in 2023, more OEMs increased their reliance on partnerships and also started moving beyond joint ventures to major investments in companies that can strengthen upstream integration in the battery value chain—making supply chains more regional, reducing the risks of sourcing and producing in China, and even obtaining materials such as lithium on a local basis.

Stellantis invested $100 million in Controlled Thermal Resources, following on its 2022 €50 million investment in Vulcan Energy, to produce lithium in the US and EU. The goal is to build up regional supply chains, making supply more resilient to global crises and geopolitical headwinds. Stellantis is also exploring alternative battery technologies by investing in Lyten to develop lithium-sulfur batteries with a higher energy density and to become independent of nickel, manganese, and cobalt. Other moves include joint ventures aimed at building up production capacities for batteries, which is the objective of the Northvolt and Volkswagen arrangement, or other critical components. The impetus for Ionway, the $2.9 billion battery parts joint venture between Volkswagen's PowerCo and Belgian materials firm Umicore, was to secure cathode production.

Another way OEMs are securing a future supply of raw materials is through acquisitions or partnerships between battery manufacturers and recycling players. While partnerships have been dominating the landscape so far, Ford has now stepped up the game and invested $50 million in

Redwood Materials, a company that will help it in battery dismantling, shredding, and metallurgical refining.

In addition, the shift toward electrification continues to spur both targeted supplier acquisitions and divestitures. Companies are reducing both their dependence on internal combustion engine vehicle components and their development costs for the new EV platform. Renault is partnering with Volvo Trucks to develop electric vans. Schaeffler is planning to acquire Vitesco Technologies to make its portfolio more future ready, forming a new supplier focused on EV powertrain components while benefiting from development cost synergies.

We expect more consolidation of OEMs' legacy internal combustion engine businesses as companies play out a "last business standing" strategy.

As OEMs invest to secure access to supplies, they also are making deals that would secure distribution and customer access. For example, they're creating joint ventures to establish integrated and connected customer ecosystems that help deliver new user experiences and, with stronger customer access, increase their share of new direct sales models. Consider how OEMs are partnering with tech companies, in particular, with major mobile phone, software, and telecom players, to create integrated user interface solutions. Apple CarPlay and Android are already standard solutions for in-car connectivity. BMW is partnering with Amazon to develop the carmaker's next-generation user interface and voice-controlled assistant.

And while OEMs are boosting their efforts to get direct customer access and secure price control, dealers are fighting to maintain and even increase their roles. For example, large dealer groups in the US are acquiring to build scale and therefore solidify their influential positions as favored and indispensable partners for OEMs. In one of the largest auto retailer deals since 2021, Asbury Automotive, one of the US's largest automotive retail and service companies, bought Koons Automotive, the ninth-largest privately owned dealership group in the US. In another such deal, US group Lithia seeks to buy Pendragon's UK auto retail and leasing operations.

Looking ahead, what can industry players do? The industry will need consolidation beyond dealers. We expect more consolidation of OEMs' legacy internal combustion engine businesses as companies play out a "last business standing" strategy. It's the result of both declining internal combustion engine volumes and increasing cost pressures. Rebates are coming back to address below-expectation demand growth, and OEMs will be pushed to maintain profitability and cost. Hence, they will reach out to suppliers, asking for further cost and price reductions. This puts massive pressure on internal combustion engine–focused suppliers, especially in Tiers 2 and 3, to sustain their businesses. Consolidation could serve to aggregate volumes and keep costs down, empowering strategic suppliers to regain decision power over component prices. This will enable them to harvest cash from their mature components business, which can be used to fund the transition to EVs.

Companies throughout the automotive and mobility value chain can follow fundamental M&A hygiene moves to prepare themselves. That means continuing to include a thorough future-back view of their portfolio and developing a well-defined M&A strategy to achieve their goals. This should be standard procedure in any environment, but in such a volatile and rapidly changing world, it's more critical than ever. Also important: With vertical integration becoming such a decisive factor in the transition to electrification and customer ecosystems, ensure that M&A is embedded in functional strategies as well as corporate strategy. In this industry, in this time, companies can't afford to view M&A as an ivory tower tool.

Industries

M&A in Building Products: Venturing beyond the Core

How the best companies prepare for adjacency deals.

By Jeffrey Crane, Nate Anderson, Adrien Bron, and Gopal Sarma

At a Glance

- Building products companies that make frequent and material acquisitions substantially outpace inactive companies in total shareholder returns, 9.6% vs. 2.7%.
- In many product segments and geographies, consolidation limits opportunities for traditional scale deals in the local core.
- The most successful companies will pursue scope M&A to build product, geography, and capability adjacencies that deliver a path to leadership and accelerate growth.
- A common misstep is misunderstanding an acquirer's parenting advantage.

It seems like the perfect time to pursue M&A in building products. Many players are rich in cash, with low levels of debt and high access to the capital needed for deals. There are ample one-off opportunities to acquire struggling assets. Financial investors have taken a step back, especially in North America, removing a potentially formidable layer of competition. And the industry is feeling a lot of anxiety amid the macroeconomic uncertainty—just the type of environment that has proved to offer opportunities to companies that are willing to make bold moves.

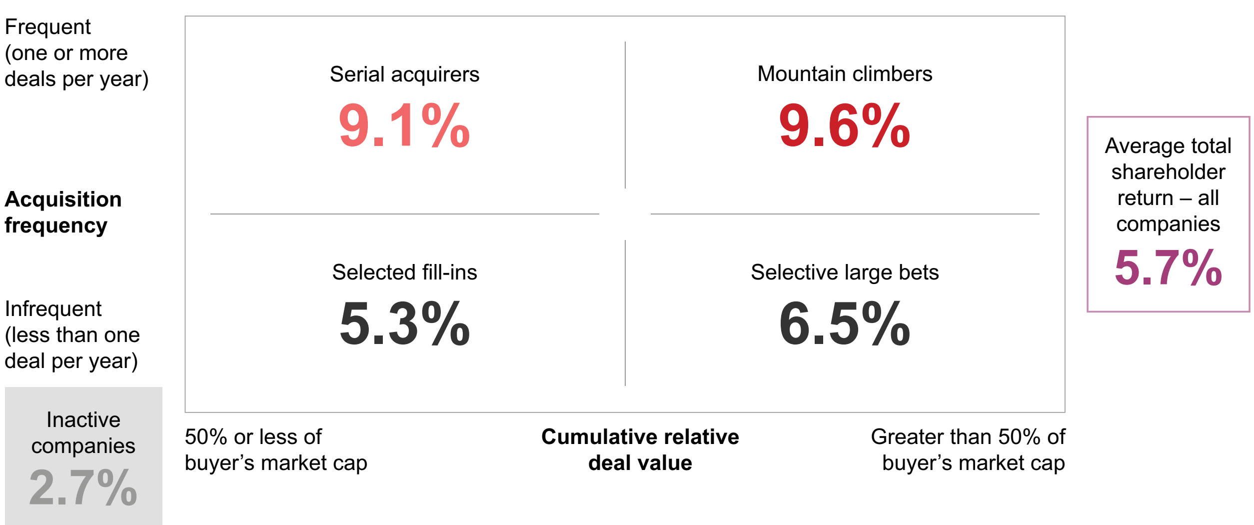
If that's not enough evidence, here's something else. Our long-term research on M&A's contribution to shareholder gains shows how building products companies that make frequent and large acquisitions substantially outperform. They achieve total shareholder returns of 9.6% compared with 2.7% for their inactive counterparts *(see Figure 1)*.

Yet despite the favorable conditions and the outsized success record, today's deal prospects are less than perfect, and the reality is that the companies that emerge as M&A champions in building products in 2024 and beyond will be those that outdo competitors by making adjacency moves as part of a clearly defined M&A strategy—and that do so with rigorous preparation.

Building products is a local business, with success highly dependent on local relative market share. Within individual product groups, the industry is highly consolidated. So, within those many subsegments, there are just too few companies to make local scale deals—the deals with the most common path to profitable growth—even feasible. As a result, pursuing growth (beyond the rate of GDP) typically requires companies to turn to scope M&A, buying adjacencies that take them to unfamiliar businesses outside of their core. In these deals, companies acquire for access to new product categories, new geographic markets for existing products, or new capabilities—everything from technology or software solutions to modular construction or environmental, social, and corporate governance solutions.

Figure 1: Building products companies that make frequent and material acquisitions deliver higher shareholder returns long term

Annual total shareholder returns for building products companies (Compound annual growth rate 2012–2022)



Notes: N=186 companies; average total shareholder return is for entire universe; cumulative relative deal value is the sum of relative deal size (deal value divided by market capitalization three months prior to announcement) across all deals made between 2012 and 2022
Sources: Dealogic; SPS; Bain M&A database 2023

In building products, scope M&A typically can't match the high rate of success achieved with scale deals. There are multiple reasons why it takes more work to identify and realize synergies outside of the core. For example, acquirers in scope deals often overlook the fact that there's little opportunity for customer sharing. The varying decision-making processes across distributors, contractors, and specifiers for each product limit the relevance of existing relationships and brands. Similarly, there's often little opportunity for cost sharing as products outside the core often require a separate manufacturing footprint and expertise, with different raw materials and logistics needs.

Here's how building products companies can use M&A to boost profitable growth.

Prioritize your core to build local positions of strength. Yes, there may be few opportunities to acquire for scale cost synergies, but when opportunities arise in the core—be they through small tuck-ins or large-scale deals—they are the surest bet for operational synergies and strong returns on investment (ROIs). Builders FirstSource, for example, bolstered its core through several tuck-in acquisitions across the US in 2023.

Buy into adjacencies that give you a path to leadership. Entering a new space requires a company to build upon its parenting advantage, and that starts by being clear about what that parenting advantage is. A company may have good logistics muscles in its current capacity, for example, but it needs to be strong enough in that capability to transfer to other companies. Can you truly add more value than any other owner? Is the parenting advantage repeatable? This is one area in which we've seen too many companies enter deals with too much confidence. The result: Instead of advancing to leadership and realizing their deal theses, they remain subscale and have poor ROIs. Once you are aware of your parenting advantage, continuously invest and strengthen it to ensure a lasting advantage over time and generate real value in a succession of acquisitions.

The path to leadership also generally means overlooking smaller assets in favor of bigger players for a first move in a new space. Consider the big play made by Holcim in US commercial roofing with its 2021 purchase of Firestone Building Products, one of the largest commercial roofing players. Holcim then built on that new core by acquiring Duro-Last Roofing Systems in 2023. It's much easier to add smaller businesses to a large initial entry point than to build up a new core from a "string of pearls" approach of small plays that are difficult to fully integrate.

Other adjacency paths include acquiring capabilities such as building information modeling and robotics, off-site manufacturing, or advancing from traditional distribution to digital commerce. Given the relatively high fixed costs in some of these areas, there is more potential to benefit from cross-regional scale than there is in traditional building products. Hilti, for example, in 2021 acquired Fieldwire, a platform for jobsite management, to accelerate its ability to deliver productivity to its customers across more than a million jobsites worldwide.

In Europe, sustainability will spur the next wave of M&A, with players buying into cleaner categories, such as wood, or acquiring emerging capabilities that will underpin a low-carbon future.

NIBE, for example, agreed to acquire Dutch Group Climate for life in 2023 to become one of the larger climate solutions providers in Europe.

Divest nonstrategic assets to free up capital to invest in more strategic ones closer to the core. Trade up by divesting businesses that don't give you a clear path to leadership and investing in those that do. Allowing management to focus on a more related group of products with some level of shared channels, end markets, or manufacturing processes helps focus efforts and tells a clearer equity story. Carlisle, for example, pivots to a pure play building products company. Recent M&A moves underpin this agenda. In 2021, Carlisle acquired Henry Company, a provider of building envelope systems, while divesting its non–building products division Fluid Technologies in 2023 and beginning the process to sell Interconnect Technologies.

Invest to continually improve M&A capabilities. Winners will be better and faster in their diligence abilities to identify, integrate, and unlock the full potential of deals. That means adapting these processes to changing times. For example, many building products companies saw expanded margins in recent years as post-pandemic supply shocks and high demand rippled through the construction market. Now, with inflation dropping in many categories, acquiring companies need to ensure that they understand the new importance of factoring pricing dynamics in diligence. Is the target company equipped to maintain margins—and to what extent? The answer could reveal one critical indicator of the asset's potential to create value, or it could signal to the acquirer that it's time to walk away from the deal.

Industries

Can Consumer Products Companies Master the Small Deal?

As category consolidation gets harder, the better option is more targeted M&A.

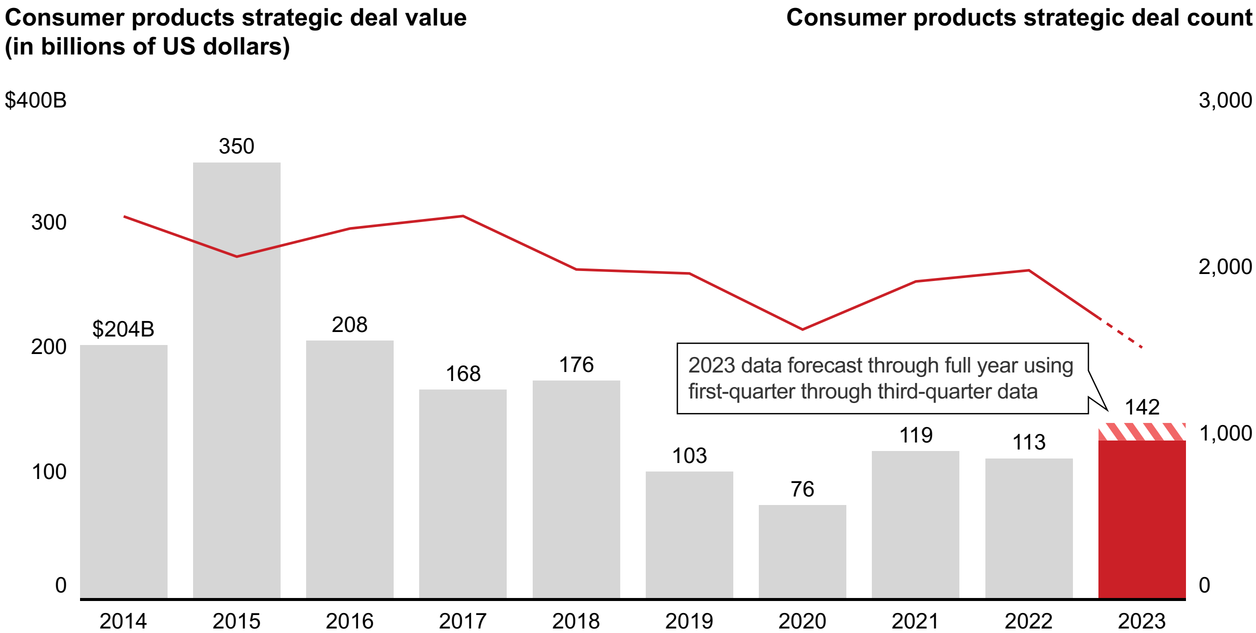
By Peter Horsley, Maria Kurenova, Sam Rovit, Allison Snider, and Joost Spits

At a Glance

- Consumer products companies have been doing fewer deals, and those they have done look beyond traditional competitors.
- While M&A remains critical to strategy, large-scale combinations are increasingly too broad, risky, and time consuming.
- Smaller deals could be the answer, but they are becoming more difficult to find and close given the current economic, regulatory, and geopolitical uncertainty.
- To be successful, consumer products companies have to rethink their M&A capabilities to be more creative, more flexible, and faster.

The year 2023 saw the number of deals in consumer products sink to the lowest level in more than 10 years, while total deal value rose by an estimated 26%, largely boosted by Johnson & Johnson's Kenvue spin-off *(see Figure 1)*. But in the years ahead, we expect fewer such megadeals in consumer products as the industry shifts away from the typical scale deals between close competitors that generate cost synergies to invest back into growth. Instead, we will see an escalation of the current trend in which companies are willing to look more broadly and buy smaller businesses before private equity or venture capital buyers get there first.

Figure 1: The strategic deal count for 2023 dropped to the lowest level in 10 years, even as total deal value grew



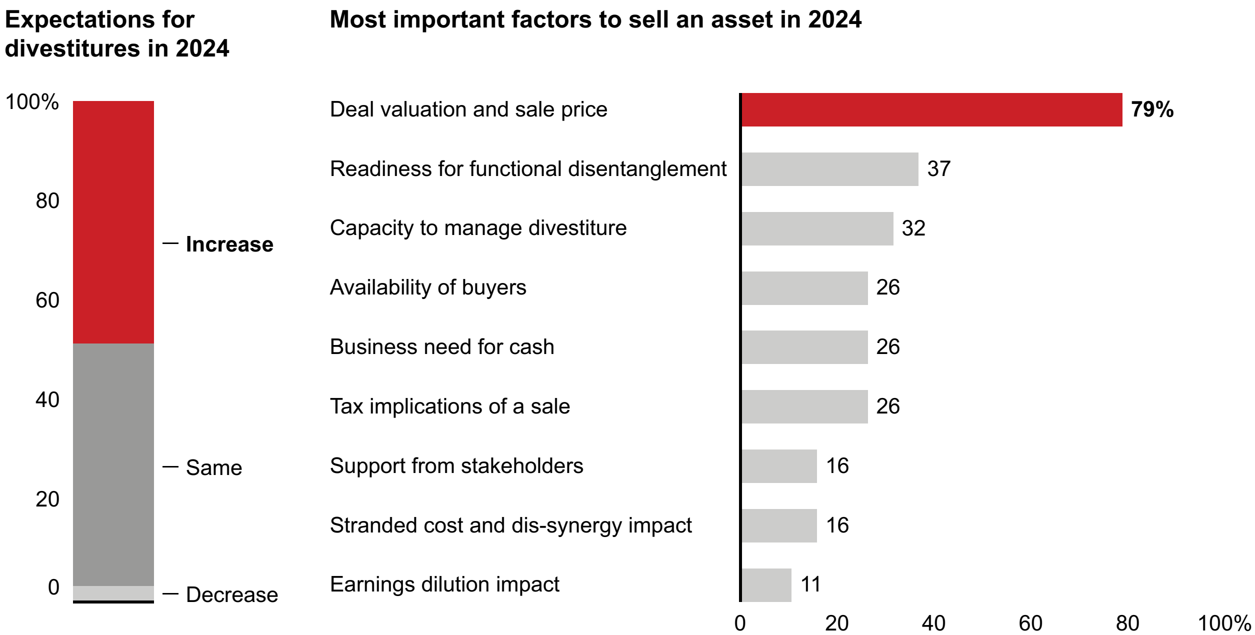
Note: 2023 deal value forecast excludes Johnson & Johnson's Kenvue spin-off from fourth-quarter projection
Source: Dealogic

Much of the industry's recent sales growth has been the result of price inflation. As inflation eases, companies are under pressure to return to a profitable volume-led growth model. Also, margins have been squeezed by shifts across the value chain, and many companies have struggled to deliver for shareholders. All of this is happening while structural rules are challenged: Companies need to invest in digitization, they need to address the impact of generative AI, and they need to consider their prospects in markets such as Russia and China, for example.

Against this backdrop, consumer products companies are plotting ways to align their portfolios against growing profitable segments and to ensure that they offer the right goods and services to meet increasingly fragmented consumer needs. They're figuring out how to simplify the portfolio to allow for greater profitability. For many, this level of change can't be achieved organically. They need to acquire assets to reinforce focus segments. And they need disciplined divestments, with roughly 50% of consumer products M&A practitioners telling us that they expect more divestitures in the industry in 2024 if the right buyers can be found *(see Figure 2)*.

While M&A remains critical for profitable growth, large deals with traditional competitors have become more expensive, protracted, and risky. Many product categories have become concentrated among the leading players, with most new innovation and growth at the smaller end of the spectrum. For example, in beer and lager, the top 10 firms now make up about 65% of the market (up

Figure 2: Consumer products practitioners expect divestiture activity to increase in 2024—that is, provided the price is right



Source: Bain M&A Practitioners' 2024 Outlook Survey

from about 55% in 2009). Nonalcoholic hot beverages, personal care, household care, and consumer health follow similar patterns of increasing concentration. The bottom line is that any scale moves by those companies are likely to come under scrutiny in a regulatory environment that has become more proactive, fulsome, and time consuming. Witness the delay and further review by the US Federal Trade Commission of Campbell's pending acquisition of insurgent Sovos Brands.

Also, larger deals are increasingly viewed as blunt tools when consumer products companies need something sharper to pursue targeted opportunities in specific growth vectors—everything from food service to home delivery to products aligned with health and wellness, convenience, and sustainability. So, the hunt for attractive smaller deals is on. But while they may minimize the risk of any one large deal, it takes patience and discipline to create value across a portfolio of acquisitions. Indeed, smaller deals come with a series of opportunities and caveats.

Opportunity: Insurgent brands can offer exciting growth, alignment with consumer trends, and attractive purpose-led strategies.

Caveat: Acquisition success has been mixed. While winners have gotten better at not damaging the assets through overintegration, the jury is still out on how best to scale capabilities across the insurgent and core portfolio.

Opportunity: Orphan underinvested businesses or brands hiding within the portfolios of larger consumer products companies can offer attractive divestiture opportunities, such as the spin-offs of Upfield and Lipton by Unilever.

Caveat: Managing the carve-out can be challenging enough while also juggling the reintegration with another business.

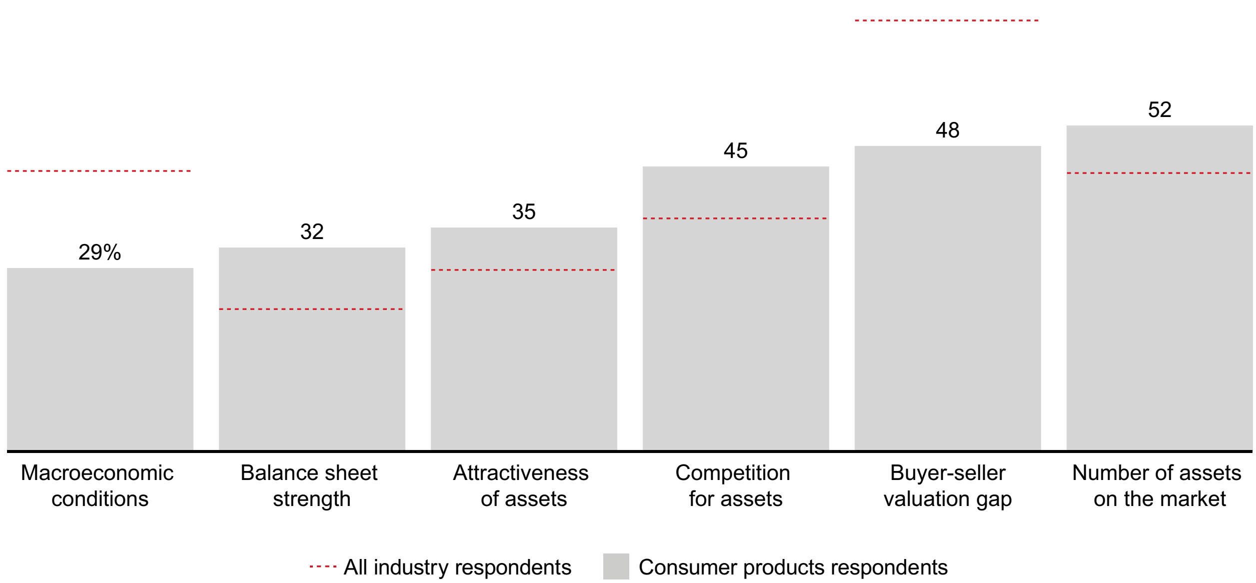
Opportunity: With Russia out of scope, and dealmakers wary of commitments in China, many companies see opportunities to acquire in India and Southeast Asia for a structural growth boost. Consider Hormel Foods' minority investment in Garudafood.

Caveat: The consumer needs and business environment in these attractive markets can be very different from potential investors' home markets.

Having identified the right deals, they then need closing. Despite high interest rates, the biggest barrier to dealmaking in 2023 cited by M&A practitioners in consumer products wasn't the cost of debt; it was the scarcity of attractive assets on the market, followed by the buyer-seller valuation gap and increased competition for assets *(see Figure 3)*.

Figure 3: Consumer products companies were less impacted by macroeconomic conditions than other industries, but balance sheets were a hindrance to dealmaking

Factors negatively impacting deal flow in 2023



Source: Bain M&A Practitioners' 2024 Outlook Survey

This is not a surprise. For acquirers, deals look expensive given the current shaky global economic outlook. Meanwhile, sellers still believe in their businesses. Indeed, deal multiples held relatively constant since the first quarter of 2022 through September 2023. The result has been much scanning, some diligence, but relatively little dealmaking. Deals that have gone ahead have attracted high premiums. For example, J.M. Smucker bought Hostess Brands at about a 50% premium to the closing share price prior to press coverage.

Those same M&A practitioners in consumer products do not see this changing anytime soon, with roughly 35% expecting fewer deals next year and another 32% seeing the same number.

Winning in this environment requires a rethink of the M&A process and capabilities to be more creative, more flexible, and faster.

Companies need to refocus their M&A on the basics of creating profitable volume growth across their portfolio. This can be through deals that are grounded in increasingly complex consumer needs (across market, channel, and category) while also being clear on the unique parenting advantages they bring to an asset—advantages such as local relative market share or scaling of the value chain. Equally important is pruning their business of brands that don't meet these criteria but might for another company.

For the highest-priority targets, a deal thesis must be created earlier—and not just for diligence.

With this in mind, we see opportunity to modify the key elements of the M&A value chain to better suit these goals.

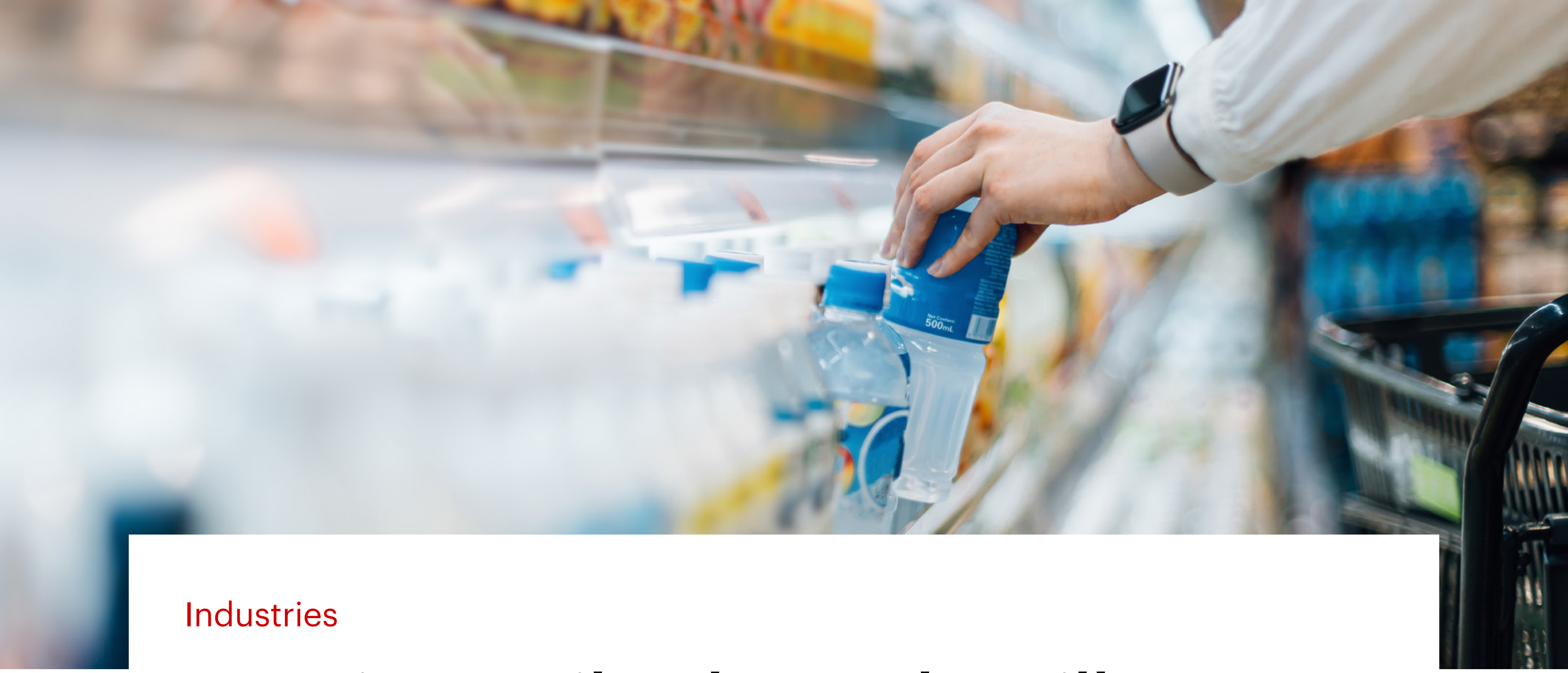
Screening must be more proactive and holistic, reaching beyond the known large or midsize competitors. The most successful will update the screen to include new strategic criteria such as the environmental, social, and corporate governance (ESG) impact; channel relevance; and digital capabilities. They'll search not only for standalone options but also for those hidden within others' portfolios.

For the highest-priority targets, a deal thesis must be created earlier—and not just for diligence. Leadership needs education, relationships need to be made, and speed is of the essence to compete with other consumer products companies and financial investors.

Once the right target list is in place, acquirers must bring greater creativity to diligence to justify the deal premium. It should focus on the issues that really matter but that are often unclear—for instance, real lasting consumer relevance, the longer-term ESG impact, and the upsides that the parent can bring to growth and profitability. It should think through how the brand or company will be integrated to enable the cost or revenue upside.

Integration of smaller assets must be more thoughtful. We have seen many fail because of overintegration, particularly in the early stages (for more, see “A Wave of Scope Deals and Portfolio Changes in Consumer Products”). Underintegration, however, can also stifle the generation of synergies. Buyers need to start with a clear articulation of what value needs to be created, leading to which areas of the business need to be integrated (and which don’t).

Finally, when it comes to mastering a portfolio of smaller deals, doing a deal once is not enough. Successful acquirers continually evolve their operating model and codify learnings from every deal into clear playbooks.



Industries

M&A in Retail: Why Scale Still Is Paramount in Grocery

Grocers look to expand outside their traditional stronghold.

By Yael Mohan, Vincent Vandierendonck, and Emily Harris

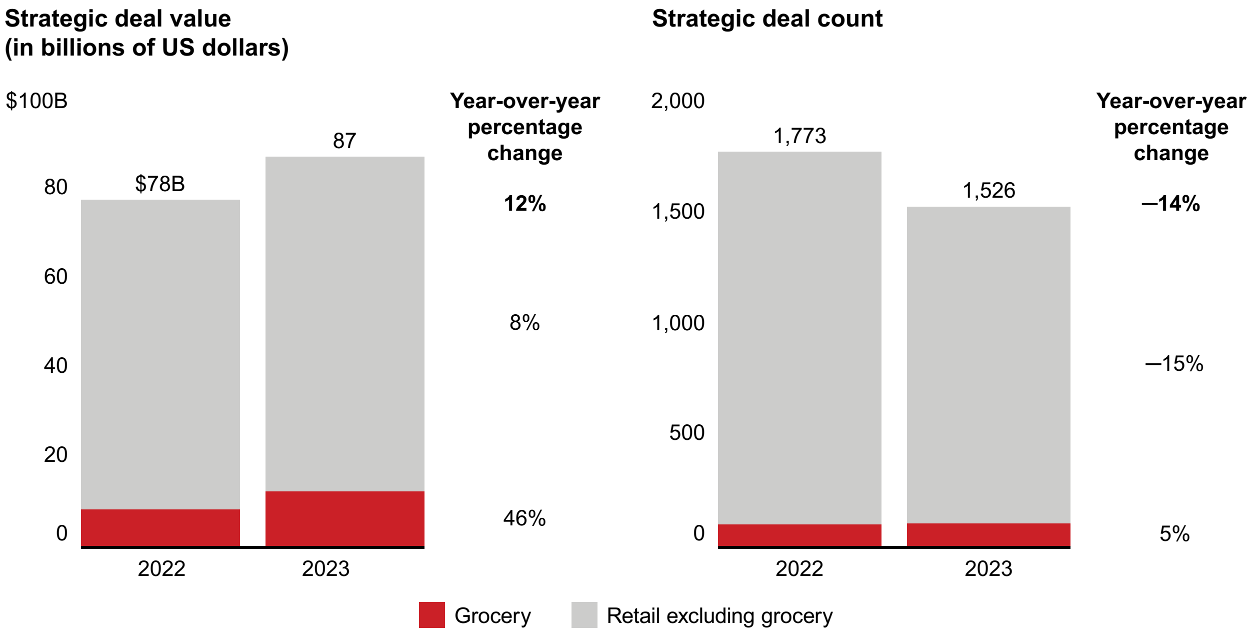
At a Glance

- While local market share remains critical in grocery, we see increasing benefits from national and even global scale.
- As grocers pursue scale M&A to consolidate, they're finding fewer targets and slower deals.
- With regulatory scrutiny extending deal timelines, retailers can't afford to lose focus on their base business pre-close.
- Grocers are also looking to M&A to find ways to de-risk their supply chains, reduce costs, and diversify revenue streams.

Across retail, all eyes are on the grocery business, which saw bigger gains in M&A value and volume than retailing as a whole in 2023. While retail overall experienced declining deal value and volume, grocery had a 46% leap in deal value as volume rose by 5% for the first three quarters of the year *(see Figure 1)*.

Why is grocery M&A outpacing the rest of retailing? Grocers have spent the past two years coming down from an unexpected Covid-19 boost and are plotting for a less rosy future. Indeed, the pandemic delivered healthy top-line growth that has since subsided, leaving grocers to watch their

Figure 1: Grocery deal value and volume outperformed the broader retail industry



Note: Includes first-quarter through third-quarter data for each year shown
Source: Dealogic

already razor-thin margins get even smaller amid rising supplier and labor costs and consumers who are feeling an economic pinch and less willing to spend.

Yet players that make bold M&A moves can bolster their position and accelerate growth. Scale still is paramount for unlocking efficiencies and cost savings that can fuel investment in new growth engines. And while local market share remains critical in grocery, we see increasing benefits from national and even global scale as grocers seek to consolidate buying power and get greater leverage from their tech investments, data assets, and trade businesses.

Pushing for deals that offer a quick path to expansion, even outside of existing strongholds, can be attractive. For example, Aldi's move to acquire about 400 Winn-Dixie and Harveys Supermarket stores will allow it to rapidly expand in the southeastern US while still pursuing an aggressive organic growth strategy across its targeted geographies. And in Europe, Carrefour's planned acquisition of the Cora and Match banners in France and Romania from the Louis Delhaize Group will solidify its presence in eastern Europe and northern France.

But as they pursue scale acquisitions, companies are encountering multiple hurdles. In addition to the high interest rates that make deals more expensive in all industries, many markets in the grocery sector have already quickly consolidated to the point at which there are just a few suitable targets available. Deals large and small are now getting heavy regulatory scrutiny that can delay them for a year or more. Consider that Kroger announced its bid for Albertsons in October 2022. Every additional month is time during which an acquirer (and the target) can get distracted from the base business and risk degrading the deal's intended value. The reality is that in a sector with such tight margins, any backslide can be critical.

Meanwhile, outside of traditional footprint and category expansion plays, there's a major opportunity for scope M&A to help grocers achieve their strategic goals and build the offerings and capabilities needed to win with the consumers of today and tomorrow. Beyond traditional private labels, more grocers are acquiring or developing exclusive partnerships with suppliers or brands that can enhance their product offerings and deliver unique assortments to end consumers. Also, as online penetration continues to grow, we see many traditional grocers buying or partnering with digital leaders that can accelerate progress on front-end and back-end digital capabilities.

With retail margins under long-term pressure, many grocers also are looking to acquire assets that can help turbocharge growth outside of the traditional retail business—be that retail media, data monetization, consumer services, or even business-to-business offerings. And with input costs fluctuating and supply chains still recovering from pandemic-era disruptions, grocers are acquiring upstream suppliers or distributors to de-risk their supply chains and drive down costs.

Similar to consolidation plays, these scope deals can be challenging—for example, they typically come with less favorable valuation metrics and more difficult diligence and integration.

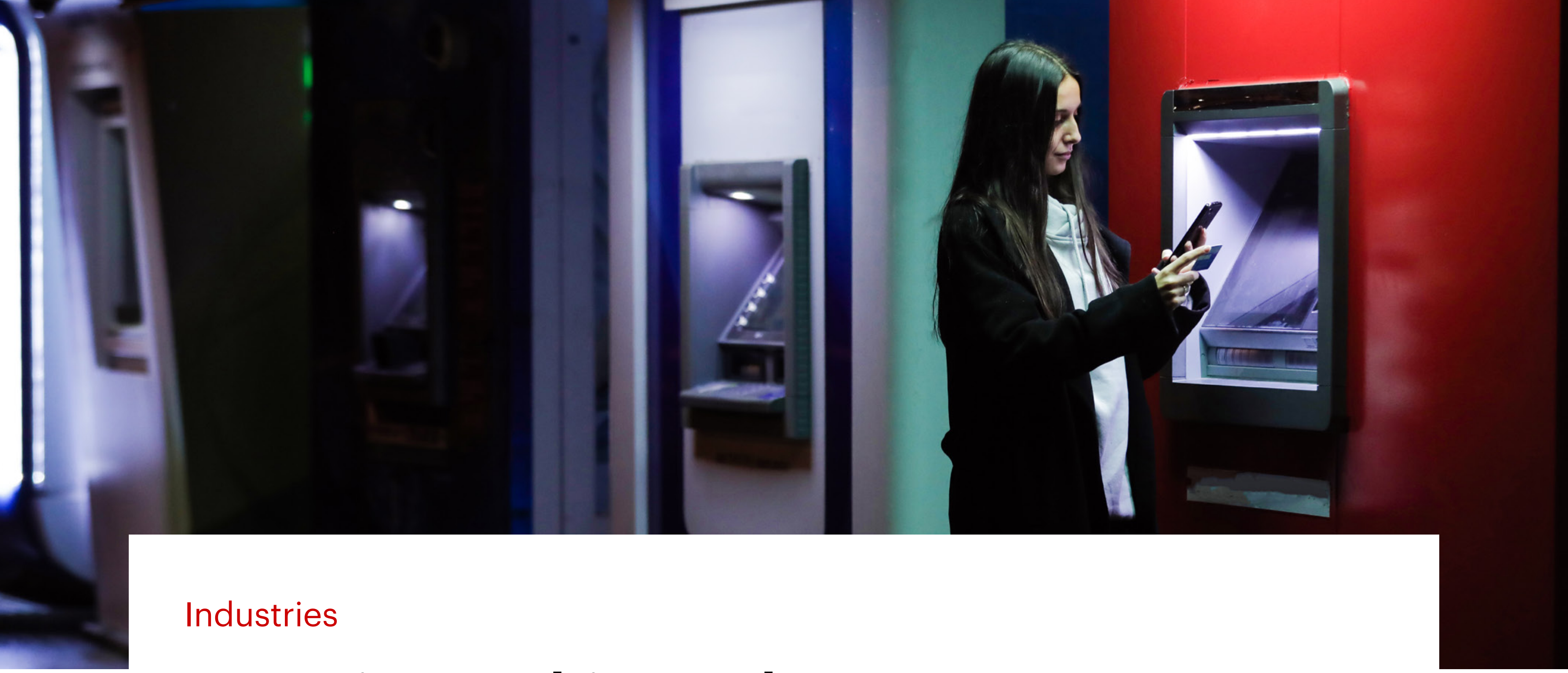
But just as the shortage of targets and regulatory concerns shouldn't deter grocers from acquiring to build scale, the challenges of scope shouldn't deter grocers from pursuing deals that give them access to new capabilities or growing markets. Success in deals will just take more thoughtful planning.

Don't sleep. In this environment, grocers that sit on the sidelines may struggle to catch up, especially if the regulatory environment continues to become more challenging. Preload the funnel of potential targets, and maintain an always-on presence to be able to react quickly when unexpected opportunities arise. Don't assume a target isn't for sale; every company has its price.

Clarify your growth strategy and the role that M&A will play. Pinpoint your sources of differentiation, and develop an unvarnished appraisal of where you are (and are not) delivering against that vision today. Yes, M&A can be a powerful tool to fill gaps in your offerings or even leapfrog competitors, but it requires clarity on the end aspiration to be successful. Also, grocers can upgrade the M&A playbook for alternative deals. As out-of-sector dealmaking and nontraditional deal structures such as joint ventures and alliances become more common, your team will need new muscles to successfully perform diligence and integrate these assets. These alliances can be powerful ways to gain virtual scale quickly, but companies often fail to realize that such alternative deal types can require as much rigorous preparation and governance clarification as an outright acquisition.

Find fuel to grow. The pressure on profits means that companies need to find new ways to continually keep costs down and unlock funds to spur top-line growth. Many leading grocers are looking to advanced analytics (including generative artificial intelligence) for more efficient, data-driven approaches to supplier negotiations and other commercial functions. And if the fuel to grow is expected to come from inorganic sources, be sure to start with a strong thesis on how and why this specific deal will create value that can be thoroughly tested in diligence. Our survey of M&A practitioners found that internal factors such as availability of funds and greater organizational bandwidth will be more important to the M&A plans of retail companies than other industries in 2024.

Think big(ger). In retail, the best total shareholder return (TSR) performers are material acquirers that make large acquisitions once per year or more on average. These companies delivered an average 10-year TSR of 10.1% compared with an average 10-year TSR of just 2.4% for retailers that were inactive in M&A over the past year. So, while small deals have their place, big bets have the potential to change the trajectory of your business. Again, keep an eye open for transformative plays, even in new formats or geographies. Also, because regulators are extending the deal timeline, plan for the fact that a deal may take more than a year to complete, and be clear on your ability to ring-fence your base business. The worst thing you can do is to lose sight of it. Keep teams focused on their day jobs, and scale up planning as a deal becomes more imminent.



Industries

M&A in Banking: Three Small Waves of Deals

In a tough year, banks turned to M&A to secure themselves or position themselves to grow.

By Rob Levy, Giulio Naso, George Keriakos, Joe Fielding, and Christy de Gooyer

At a Glance

- Deal value in banking fell by 36% while volume dropped 21% for the first three quarters of 2023—and the factors causing this depressed activity remain.
- Bank failures cast a warning signal to the industry and spurred activity that otherwise would not have been possible in an environment of increased regulatory scrutiny.
- Banks responded to this warning signal in two key ways: by divesting noncore assets to strengthen balance sheets; and by acquiring capital-light assets such as wealth management.
- Given macroeconomic and regulatory uncertainties, we see few big consolidation deals in 2024; instead, we see divestitures to strengthen the core and acquisitions for new engines of growth.

The year 2023 may well be remembered for bank failures: First Republic Bank, Silicon Valley Bank, and Signature Bank in the US; and Credit Suisse in Europe. And the specter of troubled banks set the tone for M&A in banking throughout the year.

Deal activity was muted compared with 2022 because of high interest rates, low valuations, and regulatory barriers. But the year saw many banks divesting noncore assets while healthy players made opportunistic acquisitions of troubled banks (that otherwise may not have passed regulatory approval). Other banks shored themselves up by making scope deals for fintech capabilities or capital-light businesses such as wealth management.

The activity came in three small waves.

The first wave of deals was the direct result of bank failures. First Citizens BancShares bought Silicon Valley Bank's US commercial and private banking business, JPMorgan Chase purchased First Republic, and UBS acquired Credit Suisse. All of these deals were expedited to maintain stability in the banking system. This wave signaled a warning sign to the industry: Get healthy now to ensure viability in the future.

Banks then looked to M&A to prepare their portfolios in two subsequent waves.

Following this turbulence, some banks divested noncore businesses to clean up balance sheets. For example, PacWest Bancorp sold its property lending division and other assets before later merging with Banc of California after weeks of declining share prices and large deposit outflows. Danske Bank has a pending sale of its Norwegian consumer business to Nordea to streamline its portfolio.

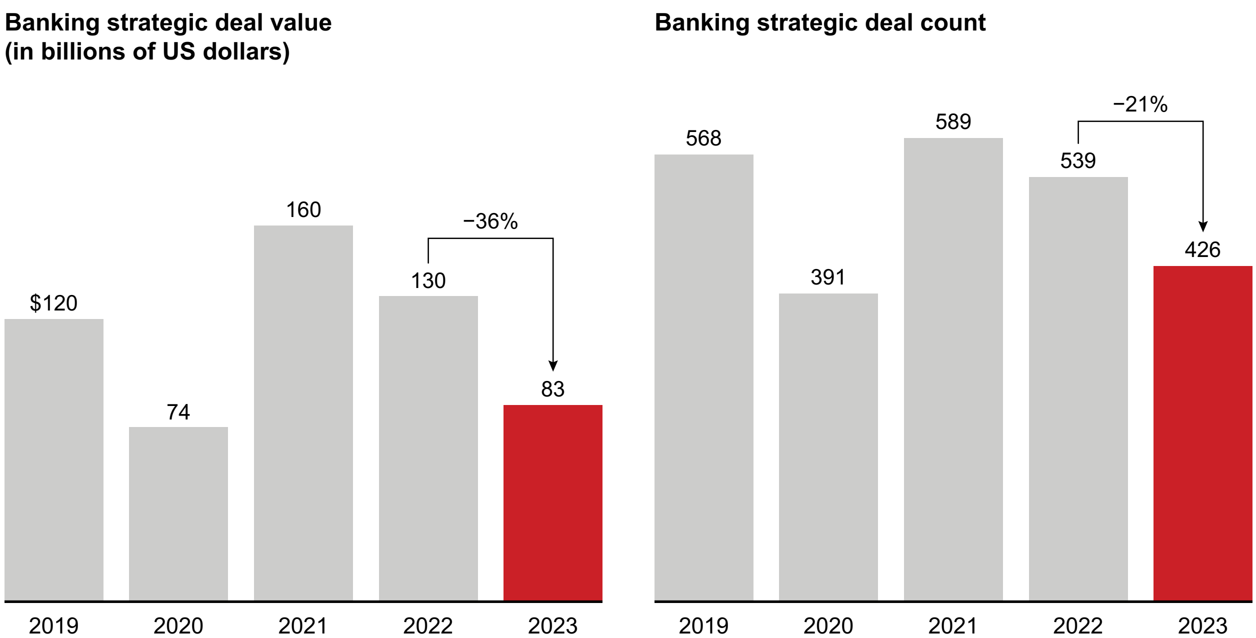
Other banks turned to M&A to strengthen positions by opportunistically expanding growth areas or adding new capabilities. Deutsche Bank purchased investment bank Numis to expand overseas. Crédit Agricole's Indosuez Wealth Management acquired a majority stake in Bank Degroof Petercam, a European wealth manager, to access growth without relying on costly and scarce capital. Dubai Islamic Bank purchased a 20% stake in TOM Group, a digital bank operator in Turkey.

As of the end of the third quarter of 2023, overall deal value in banking fell by 36% while volume dropped by 21% *(see Figure 1)*. And now the factors causing this depressed activity remain. Lowered valuations mean that acquiring firms have less leverage and that sellers are more reluctant to sell. The deal math remains difficult. For example, high interest rates depress many banks' held-to-maturity portfolios, which need to be marked to fair value in a transaction.

And then there are the regulatory mixed messages. US Treasury Secretary Janet Yellen signaled an openness to deals in the aftermath of bank failures, yet the US Department of Justice indicates tougher scrutiny for bank deals, with possibly more onerous regulatory/capital requirements for banks that have assets greater than $100 billion. Toronto-Dominion Bank's inability to obtain regulatory approval for its planned $13.4 billion acquisition of First Horizon, the largest US bank deal termination ever, may spook others from embarking on large tie-ups.

Indeed, the number of scuttled US bank deals keeps climbing as financial institutions grapple with uncertainty, and heightened regulatory scrutiny may lengthen approval processes. Eight US banking deals were canceled within the first nine months of 2023, approaching the 13 terminated deals in all of 2022 and surpassing the total of 4 terminations in 2021. This represents $13.9 billion of lost value in the US in 2023. Similarly, in Europe, cross-border requirements for ring-fencing capital and liquidity may discourage cross-border mergers.

Figure 1: Banking year-to-date deal value and deal count are down vs. previous year



Note: Includes first-quarter through third-quarter data for each year shown
Source: Dealogic

What can we look forward to in 2024?

In the US, we don't expect more big bank consolidations given the double whammy of regulatory barriers and economic uncertainty. The big caveat could be a continuation of first-wave deals intended to prevent stress or failure. With elevated interest rates, macroeconomic headwinds, and emerging commercial real estate issues, more troubled banks are likely to surface over the next 12 to 24 months in the fragmented US banking system. If this happens, expect more deals to be allowed as regulators prioritize soundness and safety over usual regulatory concerns.

In Europe, domestic concentration levels are generally sufficient, so we don't anticipate a lot of in-market scale M&A. Nor do we see a rise in the number of cross-border scale deals as long as regulatory hurdles prevent banks from sharing liquidity across borders. Yet this is one issue to watch closely since potential progress toward greater banking union could shift the calculus. While full banking union may still be distant, recent European Central Bank discussions indicate an appetite to increase incentives and reduce barriers to cross-border mergers. If this happens, we could witness a new wave of cross-border M&A as Europe's banks aim to improve their scale and profitability.

In Asia, expect banks to remain opportunistic and open to cross-border deals, although they'll be cautious on value dilution and regulatory constraints.

We also believe that 2024 will bring more second-wave activity to sell assets to strengthen the core and free up capital. Some of the buyers might be stronger banks that see an opportunity to gain scale and find synergies. But some of these asset sales will be to nonbank lenders, the so-called "shadow banks" that recently have found themselves in the regulatory crosshairs. Increased regulation could dampen appetite from this sector.

Finally, 2024 could bring with it a rebound in M&A for new engines of growth or to acquire new capabilities—namely, third-wave deals. Despite the potential for near-term dilution associated with capital-light businesses, we believe that banks will act on opportunities to purchase assets such as fintech businesses to build new capabilities. As many fintechs struggle with profitability and face challenges accessing capital, more will be available at lower valuations than in the past. Banks can capitalize on emerging stressed situations to acquire valuable technology assets. Buyers will be those looking to make step changes in their capabilities—for example, banks with lagging tech systems and innovation.

What should banks do?

Banks have not historically relied on M&A as a steady source of strategic growth. But now is the time to reconsider that stance and to begin building the fundamentals for successful deals.

That means having capital ready to do deals. Banks can start by taking a hard look at existing businesses that could be cleaned up via divestitures ahead of problems and also taking actions to improve costs, efficiency, and productivity. It's imperative to get costs in check before problems emerge; the market has been punishing, and the speed of liquidity events has been unprecedented.

Banks with a strong balance sheet can prepare in advance to act quickly for the moment when scale or scope opportunities present themselves. They should define their growth ambition so that they are clear on the types of acquisitions they need. They can perform early due diligence to understand what businesses and assets might be valuable if a distressed bank needs to engage in a fast sale. The best bank acquirers develop their playbook for robust diligence by drawing on insights from private equity. They come armed with a value creation plan and post-merger integration capabilities.

And as part of adopting a new M&A posture, banks can learn from other industries. For example, the top consumer products companies have succeeded in using a "string of pearls" approach to M&A as a source of growth. They've perfected their ability to identify and integrate smaller deals without destroying value. In these uncertain times, banks could consider a similar strategy.

Industries

M&A in Insurance: Deals Advance Capabilities and Risk Prevention

Instead of building or buying, many insurers are testing the waters with partnerships.

By Phil Anselmino, Sean O'Neill, and Mareike Steingröver

At a Glance

- Even as dealmaking slowed in 2023, many insurance companies continued to use M&A to strengthen positions or improve offerings.
- Targeting new technologies to enhance core insurance capabilities is helping some companies stay ahead.
- Others are turning to acquisitions that enable greater focus on prevention in addition to protection.
- Partnerships are becoming common as insurers test new waters, but they require as much preparation as acquisitions.

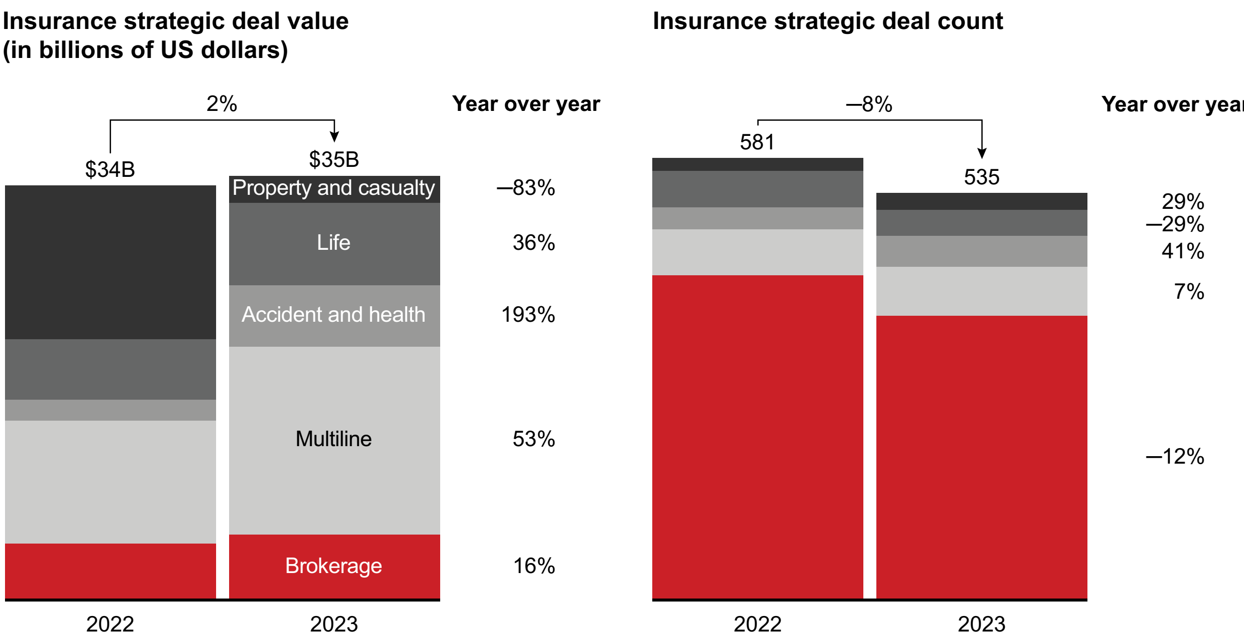
Dealmaking slowed in 2023 for the insurance industry amid the same macroeconomic concerns that caused activity to stall across most other industries. Deal value grew 2% while deal volume fell by 8% over the first three quarters of the year compared with the same period a year earlier *(see Figure 1)*. Despite the slowdown, some insurance carriers, especially diversified global companies, continued to use M&A to hone and strengthen positions in specific markets. That was the objective of HDI's acquisition of Liberty Mutual's business in selected South American markets, for example.

In life insurance, in which the number of deals dropped by nearly 30% over the first three quarters of 2023, private equity firms and large asset managers continued to invest in assets in North America to the tune of $7 billion. Deal activity dropped for property and casualty insurers, too, with 30% of the segment's 2023 deals classified as minority deals vs. 15% in 2020. And in brokerages, which represent more than 70% of industry deal volume, activity slowed by 12% in the first three quarters of 2023 compared with the same period in 2022. In this segment, serial acquirers also are shifting focus from purely growing scale through deals to driving scale efficiencies and effectiveness through a higher degree of integration.

Acrisure, now a top 10 global brokerage built through more than 700 acquisitions over the past decade, has launched the next level of integrating its acquisitions at the enterprise stage by starting to operate under a single brand and rolling out unified regional platforms while at the same time continuing to use acquisitions to build further scale and scope.

There are two underlying themes over the past 12 months' deal activity that will help show where the industry is heading and the role that M&A will play: One set of deals strategically enhanced the core by providing access to technology that advances insurance capabilities; another set reflects the increasing focus on prevention in addition to protection.

Figure 1: Brokerage deals accounted for most of insurance deal volume through third quarter 2023, with further brokerage consolidation likely



Note: Includes first-quarter through third-quarter data for each year shown
Source: Dealogic

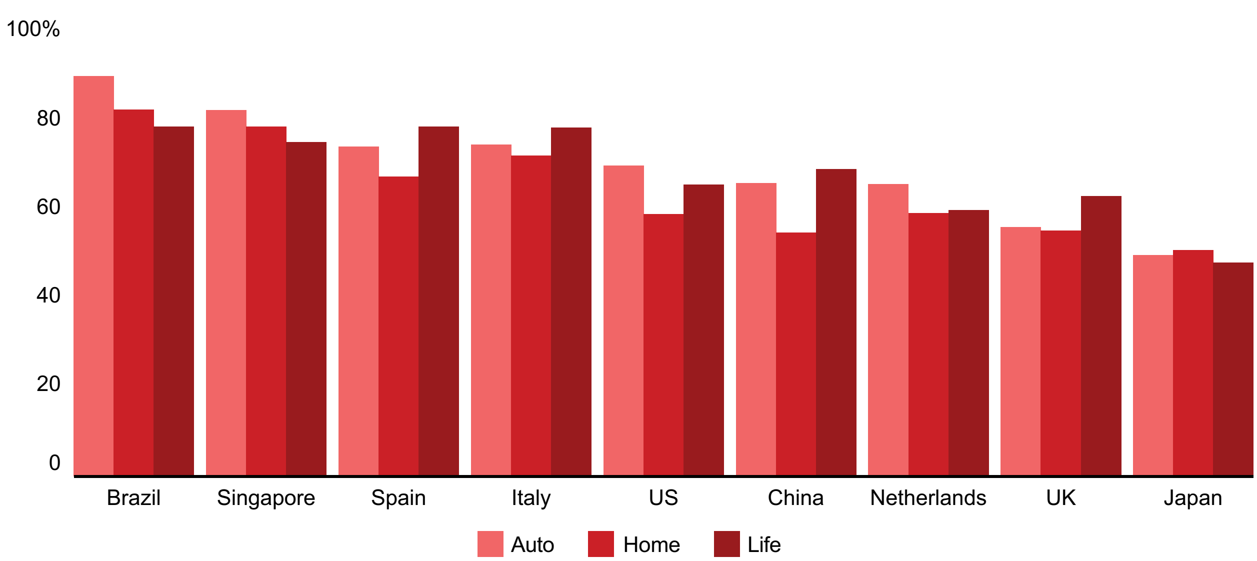
Consider the targeted deals made by Allianz to acquire new technologies that enhance its core insurance capabilities. For instance, the company's Allianz X division bought claims technology provider Innovation Group in the UK this year, building on last year's deal to take full control of simplesurance, a provider of cross-selling technology that is closely cooperating with Allianz partners.

The other impetus for dealmaking is increasing consumer demand for risk prevention services from insurers *(see Figure 2)*. Climate change, disease, aging populations, and technological disruptions are combining to radically change the risk landscape—both through increased frequency of events and an ever-expanding set of perils. The changes thrust insurance companies into new roles. They have the opportunity to evolve beyond managing reimbursement and repair for damage into working toward preventing or minimizing losses. This includes both incentivizing behaviors that will reduce risks as well as increasing the use of technologies such as water sensors, water shut-off valves, and related tools (see the Bain Brief "The Future of Insurance: As Risks Mount, Insurers Aim to Augment Protection with Prevention").

Companies that traditionally built their competitive advantage around underwriting risk and operational excellence increasingly are moving to extend their offerings beyond risk protection to address key pain points across the customer journey, such as risk prevention services. In doing so,

Figure 2: Customer preferences are shifting from loss protection to risk prevention and reduction

Share of customers interested in using risk prevention services from insurers, 2022



Source: Bain Insurance Consumer Insights Survey, powered by Dynata, 2022 (n=28,765) they face the inevitable build, buy, or partner decision. We see different players pursuing different paths. HUK-Coburg, Germany's leading auto insurance carrier, has embarked on a strategy to build value-added services across the whole car ownership customer journey, including offering telematics-based insurance products, establishing a national network of affiliated auto repair shops, and operating used car dealerships.

More insurers are opting to buy or partner for services that go beyond the traditional insurance value chain. For example, over the past two years, US property and casualty insurer State Farm became an equity participant in multiple companies that offer prevention services around auto, home, and cyber insurance. Among the biggest deals were State Farm's equity investments in home security technology provider ADT and in cyber software provider Elpha Secure Technology.

It's easy to sign up a partner in a headline deal, but it's a lot harder to effectively integrate it into the business.

Additionally, more companies are opting for partnerships as they test new waters. After a successful pilot, leading Swedish insurer Länsförsäkringar rolled out a water leakage detection solution produced by Ondo, an insurtech with which it has engaged in a five-year partnership. The move helps to transition the insurer to a "predict and prevent" claims prevention model. Similarly, AXA XL partnered with Intenseye to use the company's AI-powered technology to prevent workplace injuries. Employee health and safety teams rely on the technology to monitor facilities for potential health and safety violations.

Equity investments, either via minority stakes or full acquisitions, require much rigor regarding due diligence for the deal and the asset itself, with dealmakers considering both financial and business aspects before making the decision to invest. For these deals, it is critical to involve the relevant line of business in the process right from the start because a key part of the deal thesis and anticipated value-add are rooted in the ability to integrate the service into the core insurance offering.

Partnerships come with much promise but also the danger of being driven more from a marketing perspective than a nailed-down value creation plan. It's easy to sign up a partner in a headline deal, but it's a lot harder to effectively integrate it into the business. Unclear roles and decision rights among partners can also introduce new management complexities. The best companies support partnerships with the same disciplined preparation that they would apply to an acquisition, and they invest upfront in proper governance for a smoother collaboration.

Industries

M&A in Payments: Making Strategic Moves, with Few Headline Deals

While many companies wait for the math to improve, others find deals to expand reach or unlock value.

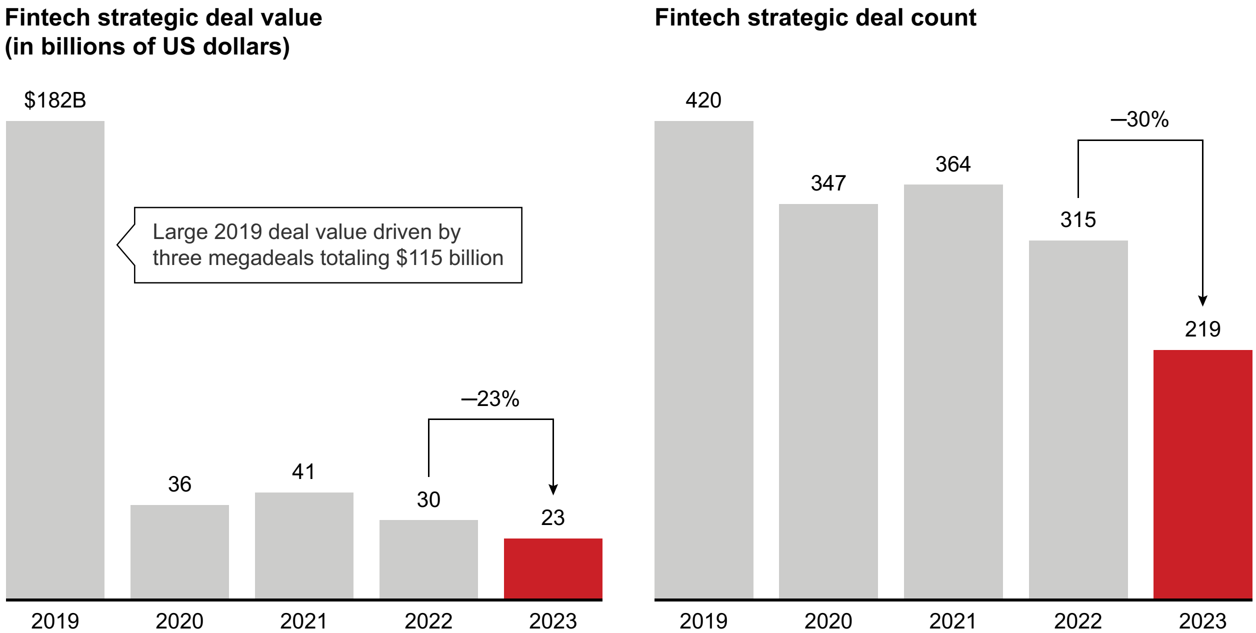
By Erin McCune and Tevia Segovia

At a Glance

- Payments companies are cherry-picking assets in capability deals to advance the industry's evolution, complementing payments with working capital.
- Small deals in major global markets such as France as well as new opportunities in smaller markets aim at expanding geographic reach.
- More incumbents are looking to separate their payments business to create standalone entities that trade at higher multiples.
- Investor impatience and small, attractive fintech companies low on cash will likely lead to heightened dealmaking in 2024.

On the surface, it seems as if the year 2023 was less frothy than recent years. Overall, deal value for fintechs dropped 23% and volume fell 30% over the first nine months of 2023 *(see Figure 1)*. Yet, look beneath this calm surface, and you'll see furious activity against many smaller assets and an industry quietly growing via M&A in a variety of interesting ways. The activity represents three key themes: geographic expansion, deals for adjacent capabilities, and large-scale separations.

Figure 1: Fintech experienced a decline in both deal value and volume



Note: Includes first-quarter through third-quarter data for each year shown
Source: Dealogic

Some of the geographic expansion took place in larger markets. Global fintech Rapyd bought PayU GPO to enhance its presence in Latin America and Europe, for example, while France-based Market Pay acquired Polish paytech Novelpay, including its French subsidiary PAX France Novelpay.

But the expansion also encompassed previously untapped markets as global demand surged for modern digital payment options. In Uzbekistan, for example, Georgia's TBC Bank acquired the remaining 49% share in Inspired, which operates under the Payme brand.

In addition to this global expansion, companies are cherry-picking assets that add capabilities as the industry evolves from cards to digital payments to adjacencies—namely, everything from payroll to disbursement to small business services, complementing payments with working capital. For example, the objective of Nuvei's acquisition of Paya was to add integrated payment and business-to-business capabilities. In credit processing, Marqeta expanded beyond debit and prepaid with its acquisition of Power Finance.

And despite the industry's fragmentation, there was a shortage of consolidation plays in 2023. Many banks were distracted by the need to upgrade to new data standards and formats and other regulatory issues, so only the largest and most strategic banks turned to M&A or partnerships to grow. More common were deals similar to Fifth Third Bancorp's acquisition of Rize Money, an embedded payments platform that provides payment infrastructure and risk management capabilities to fintechs.

Instead of acquiring, more industry incumbents are looking to unlock value by separating their payments business to create standalone entities that trade at higher multiples. Fidelity National Information Services (FIS) divested a majority stake in Worldpay to private equity firm GTCR. Barclays is exploring the sale of a stake in the unit that processes payments for UK merchants and is seeking a partner to help grow that business.

The year 2023 also saw fewer distressed acquisitions than many anticipated. Among the exceptions: Payments processing giant FIS acquired the banking-as-a-service start-up Bond Financial Technologies.

Instead of acquiring, more industry incumbents are looking to unlock value by separating their payments business to create standalone entities that trade at higher multiples.

But it's unclear how much longer cash-strapped smaller companies can hold out as they deplete runway. Indeed, the combination of investor impatience and smaller, attractive fintech companies low on cash will likely lead to heightened dealmaking in 2024, benefiting well-capitalized payment conglomerates and incumbents as they tuck in assets that accelerate their strategic initiatives. Our survey of M&A practitioners found that the business need for cash on hand is much more important for financial services companies than other industries when deciding to bring assets to market.

We expect stronger and larger payments companies, many of which are eager to enhance their innovation capabilities and talent pools, to be more active than banks in the year ahead. Banks are likely to turn to less capital-intensive partnerships as an alternative to traditional M&A.

What does this mean for buyers and sellers?

For the consolidators, there is a window of opportunity to absorb competitors at less stratospheric prices, particularly those that are unwilling or unable to invest to maintain their competitiveness. This may unlock new opportunities to carve out banks' underinvested merchant acquiring businesses, for example.

For the capability hungry, purchasing high-quality assets will require bold approaches. A deep understanding of the true value of the capabilities, such as the new customer segments and cross-selling opportunities they unlock, will help them make offers that get their targets to the table without overpaying.

For potential sellers, the key will be getting to maturity and profitability (or at least on a clear path to profitability) as fast as possible. The environment has much less tolerance for cash-burning models.

Above all, the best acquirers will anchor their M&A in strategy and be deliberate about market scanning, due diligence, and integration efforts. Leading organizations will plan for opportunities long before they arise by building a target pipeline (regardless of whether or not they are available) and systematically cultivating relationships with high-priority targets.

A combination of commercial and technology due diligence will help ensure that the asset quality is as advertised. That gives the potential purchaser a clear understanding of how to monetize the asset, or the opportunity to walk away if the signs are negative.

It is also critical to be extremely intentional about integration. Many acquirers have created destructive complexity in the process of bringing small assets together and into the fold. Or alternatively, those assets get lost within the organization, with no real idea of how they will fit into the acquirer's portfolio. In either case, the buyer isn't able to generate the true value of the acquisition.

Industries

M&A in Wealth and Asset Management: Finding Pockets of Opportunity in a Slow Year

Why companies are doing deals in a period of uncertainty.

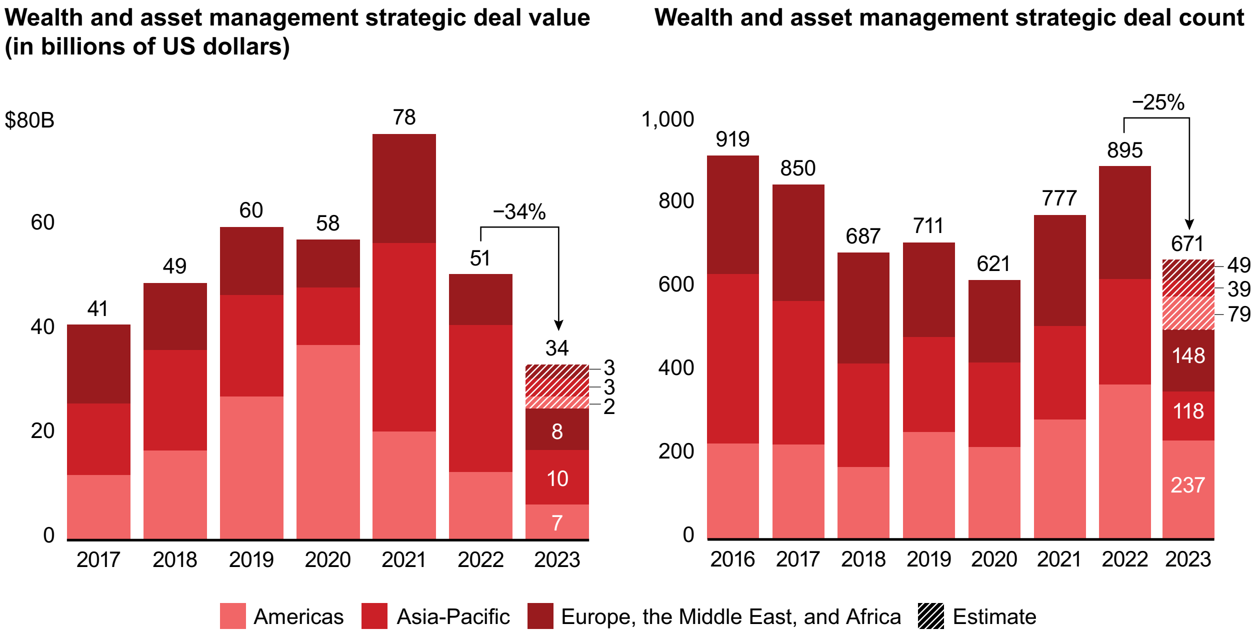
By Daniele Funaro, Markus Habbel, Avishek Nandy, Antonio Rodrigues, and Manuela Frey

At a Glance

- Despite a down year for M&A, wealth and asset managers selectively completed deals to help them consolidate, vertically integrate, broaden their offerings, and expand distribution.
- The benefits of scale in technology and distribution will be especially important for wealth managers, and the benefits of scope will be important for asset managers considering expansion into alternative investments.
- In Asia-Pacific, where deal value dropped the most, companies continued to turn to joint ventures to expand distribution in new markets.
- Consolidation pressures are likely to intensify in 2024, spurring the need for more scale deals while vertical integration will require more scope deals.

Globally, in 2023, deal value in the wealth and asset management industry is expected to drop by 34% while volume is expected to sink by 25% *(see Figure 1)*. Despite the lower level of activity, even in a tough environment of uncertainty and high interest rates, companies are finding that they can

Figure 1: Wealth and asset management deal value declined by 34% year over year while deal volume declined by 25%, reflecting smaller average deal sizes



Notes: Proprietary Bain classification methodology; 2023 data forecast through full year using first-quarter through third-quarter data
Source: Dealogic

no longer hold off on deals. But what they do depends on what and where they are. We're seeing distinctions for wealth vs. asset managers and different dynamics across regions.

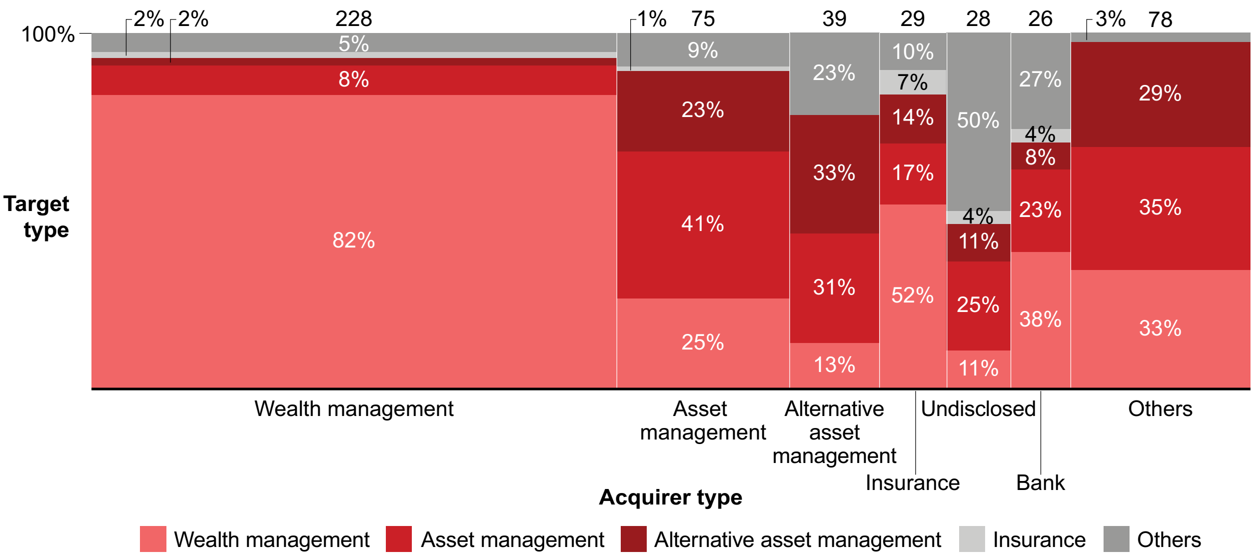
Wealth managers turned to M&A to consolidate. Of the 503 deals taking place during 2023's first nine months, 188 involved wealth management companies acquiring other wealth management companies in scale deals *(see Figure 2)*.

That was the impetus behind Franklin Templeton's $1.3 billion bid for Putnam Investments and Cetera Holdings' recent $1.2 billion purchase of Avantax. In other scale deals, universal bank Crédit Agricole's Indosuez Wealth Management bought a majority stake in private bank pure play Degroof Petercam for slightly more than a $1 billion sum, and UBS acquired rival Credit Suisse, which created a banking and wealth management institution with a $1.6 trillion balance sheet. (Contrary to the global trend, Europe's deal values are actually projected to be roughly stable in 2023, though deal volumes have decreased. This reflects the fact that there were a larger number of deals in excess of $1 billion.)

Another set of deals involved scope M&A to help companies grow and integrate along the value chain—banks buying asset managers, for example. And there are vertical integration deals that marry asset managers' products with wealth managers' distribution. Looming EU-wide

Figure 2: Globally, most deals were made by wealth managers acquiring other wealth managers

Wealth and asset management strategic deal count



Notes: Proprietary Bain classification methodology; 2023 includes first-quarter through third-quarter data only
Source: Dealogic

regulations—in particular, a potential future ban on retrocessions—have sparked interest in such deals.

US asset managers also opted for scope deals aimed at buying capabilities or distribution.

Meanwhile, customer demand for more sophisticated investment products has led asset managers to pursue scope deals that add capabilities for selling alternative investments such as private market products. That was the objective of MetLife's purchase of privately owned alternative investment firm Raven Capital Management, for example.

In Asia-Pacific, acquisitions fell the most, dropping 51% in value and 37% in volume. While traditional M&A has slowed down, joint ventures, which are already popular in the region, continued to gain momentum. More than their counterparts in the Americas or Europe, the Middle East, and Africa, Asia-Pacific asset and wealth managers live on the leading edge of technology, with many of the joint ventures aimed at accelerating companies' advancement in fintech. For example, Avaloq and BlackRock entered a partnership to offer an integrated wealthtech platform to wealth managers not only in Europe but also in Asia-Pacific, addressing a large gap existing with the region's wealth managers.

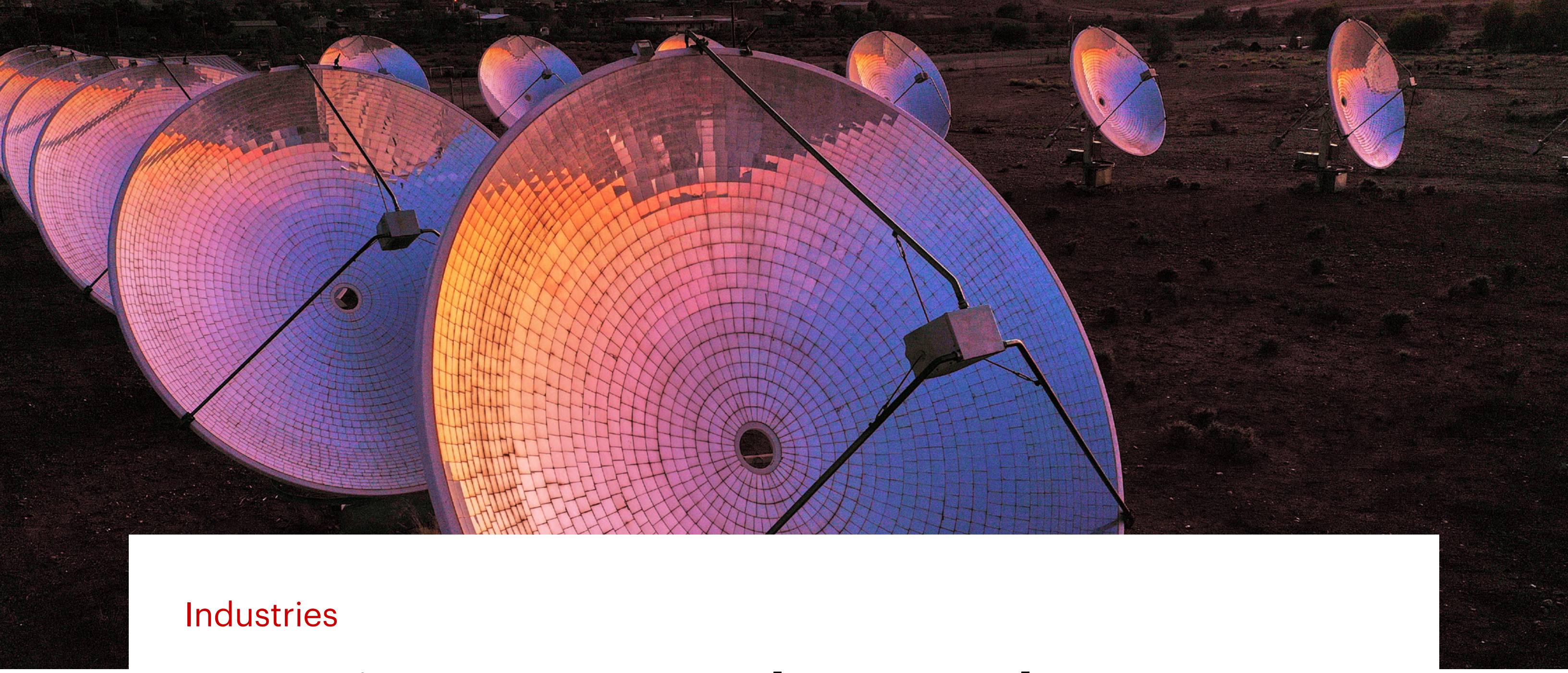
Other joint ventures in the region are moves by multinationals intended to extend their distribution reach in fast-growth Asia-Pacific markets, combining a global acquirer's product strengths with a local player's distribution networks—a move that helps the acquirer nudge its way into traditionally hard-to-enter onshore markets. It's a way for international companies to hedge their bets in the region, particularly given the challenging environment for M&A. In India, BlackRock and Jio Financial Services announced a 50-50 joint venture. In China, UBS and ICBC entered an arrangement in which UBS now holds a 20% stake in ICBC Credit Suisse Asset Management, a joint venture that had been partially owned by Credit Suisse. Some companies are now moving past the joint venture stage to gain total control. J.P. Morgan Asset Management acquired full ownership of its China-focused joint venture China International Fund Management, which it established with Shanghai International Trust in 2004.

What's next? Looking ahead, we expect M&A to rebound as the macroeconomic environment starts to stabilize (albeit at likely higher interest rates) and as sellers recalibrate their expectations and buyers gain more confidence.

We believe that consolidation pressures will intensify further. The underlying business drivers for consolidation remain the same, even in a tough deal environment. The benefits of scale in technology and distribution will be especially important for wealth managers. The benefits of scope will be important for asset managers as they eye expansion into private markets and other alternative investments, or as they seek digital capabilities to serve newly emerging client segments. We also believe that many universal banks looking to define compelling growth strategies will continue to grow their asset-light wealth management or asset management divisions through M&A, particularly in Europe.

Regardless of the objective and region, success will require much more than thoughtful financial engineering. A clear deal thesis and value creation plan will set the winners apart from the laggards. The best companies will rely on an upgraded toolkit for M&A—including deliberate, clearly sequenced strategy, screening, and diligence capabilities, as well as execution and integration capabilities—to be able to successfully execute deals in this high-stakes environment. And they will do it before their competitors. With higher interest rates, companies will need to drive more value beyond financial engineering. This should benefit the strategic buyers, who, unlike their financial acquirer counterparts, are less reliant on low-cost debt.

The macroeconomic headwinds that require companies to strengthen dealmaking economics also make it necessary to strengthen the core business for higher returns. That means actually finishing any integrations they have started and tackling often-ignored technology issues to ensure that they can create value from their deals. In 2024, companies that improve their performance will be those better positioned for deals.



Industries

M&A in Energy and Natural Resources: The Circular Economy Is Not Linear

The path to a low-carbon future now looks less straightforward, rockier, and more expensive than it did just a few years ago.

By Whit Keuer and Arnaud Leroi

At a Glance

- After three years of steady growth, energy transition deals plateaued in the first nine months of 2023.
- Energy and natural resources companies are balancing deals between reinforcing the core businesses and promoting a low-carbon agenda.
- To strike the right balance, the best companies will take a more targeted approach to their energy transition acquisitions.

Companies in the energy and natural resources (ENR) industries face a strategic crossroads. Do they invest and pursue deals to shore up their legacy higher-carbon businesses, where profit pools are potentially poised to decline given the world's ambition to accelerate to net zero, or do they shift their focus to businesses that deliver on the clean energy transition, where profit pools are growing rapidly from a much smaller base?

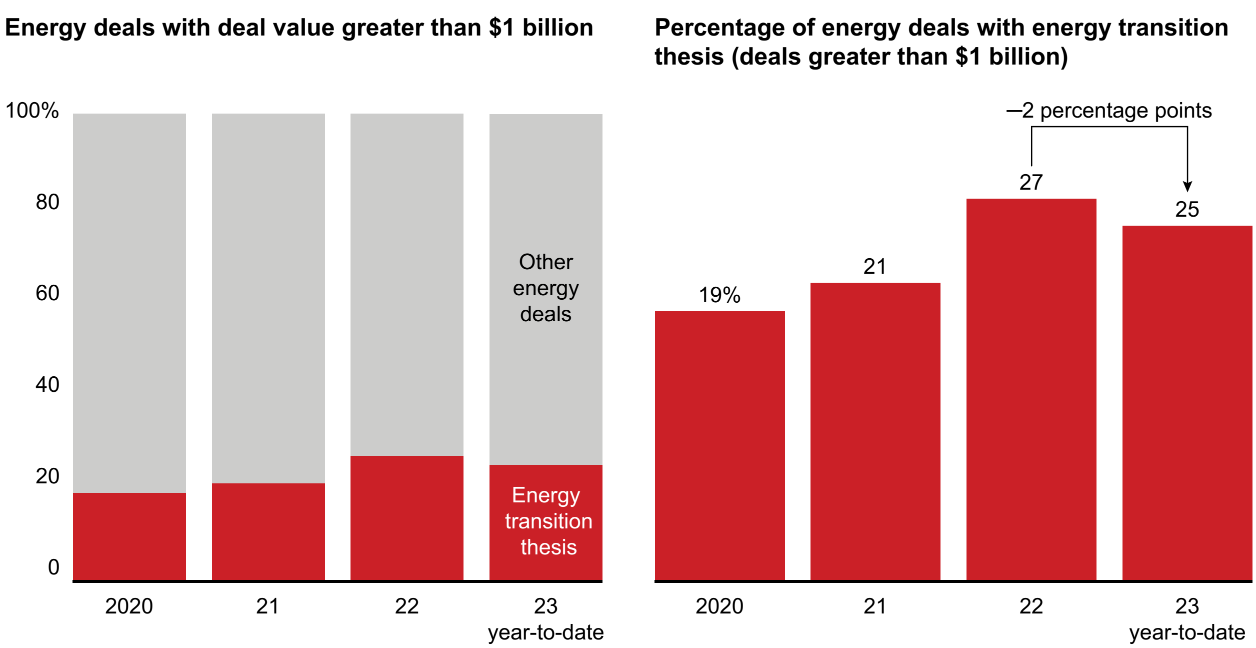
That question is at the heart of M&A strategy for all ENR companies, and the year 2023 gave us a glimpse of how they are answering it. After three years of increasing growth, the volume of energy transition deals plateaued (likely temporarily) as companies readjust their priorities and demonstrate that the movement to a lower-carbon future and a circular economy is not linear. That path now appears less straightforward, rockier, and more expensive than it did just a few years ago.

Look at the numbers. In 2020, 19% of M&A total deal value (for deals in excess of $1 billion) was related to the energy transition, and that number increased to 21% in 2021 and 27% in 2022 before leveling at 25% for the first nine months of 2023 *(see Figure 1)*. We see this as an initial stabilization before continued capital rotation toward the energy transition in the latter part of the decade.

There are several factors influencing this shift.

First, US government subsidies haven't been enough to fully offset higher interest rates and supply chain costs, and geopolitical tensions are shifting some of the focus to energy security. A number of energy sectors have felt the impact—most prominently, the offshore wind markets. Ørsted had a record $4 billion impairment loss and canceled two high-profile projects in the US, for example.

Figure 1: The energy transition deal thesis sharply increased in 2022, but it has begun to plateau



Note: 2023 year-to-date as of November 17, 2023
Source: Dealogic

Also, equity markets have not valued energy transition investments. Valuation multiples for European international oil companies (IOCs) have traded at discounts to their more premium-rated US-based IOC peers. A specific goal for the European IOCs is to narrow and even close the structural valuation gap with US IOCs. Earlier this year, both Shell and BP signaled an intention to lean back into oil and gas, prolonging production. Similarly, market valuations for pure play renewable power companies have fallen, with the iShares Global Clean Energy ETF down 27% in 2023 as of December 1.

A final reason for the shift: Energy transition investments typically involve project financing and modest debt levels, and today's uncertain macroeconomic backdrop and higher interest rates have made project economics less attractive.

This has made it even more difficult for energy companies to balance the dual challenge of continuing to spur performance in their core hydrocarbon businesses—in safety, productivity, cost, carbon, and capital productivity—while demonstrating that they also are worthy custodians of clean energy capital.

This tension between improving performance in the core hydrocarbon business and advancing the fragmented, disorderly, and nonlinear energy transition can be seen in M&A activity throughout the industry. In oil and gas, ExxonMobil and Chevron recently invested more than $110 billion to acquire Pioneer and Hess, respectively. These are investments in their core businesses and are great examples of how companies are taking decisive action to enhance scale, reinforce the core components of their existing portfolios, ensure that their reserves and resources are abundant and competitive, and beef up their integrated value chains.

We see five things that ENR companies can do to improve their odds of success.

But these large acquisitions do not need to be made at the expense of continued strategic investments in the energy transition. For example, ExxonMobil recently purchased lithium drilling rights on 120,000 acres in the US and aims to become a major US supplier for makers of electric vehicle (EV) batteries by 2030. It's part of ExxonMobil's long-term effort to reposition itself for the advancement of EVs and electrification in transportation. For its part, Chevron set an ambition to become a leader in renewable fuels by producing 100,000 barrels per day by 2030. It has a focused M&A strategy with two completed acquisitions and one joint venture—deals that advanced Chevron halfway toward that goal.

As they rebalance their M&A strategies to reinforce the core to fuel investments during the energy transition, we see five things that ENR companies can do to improve their odds of success.

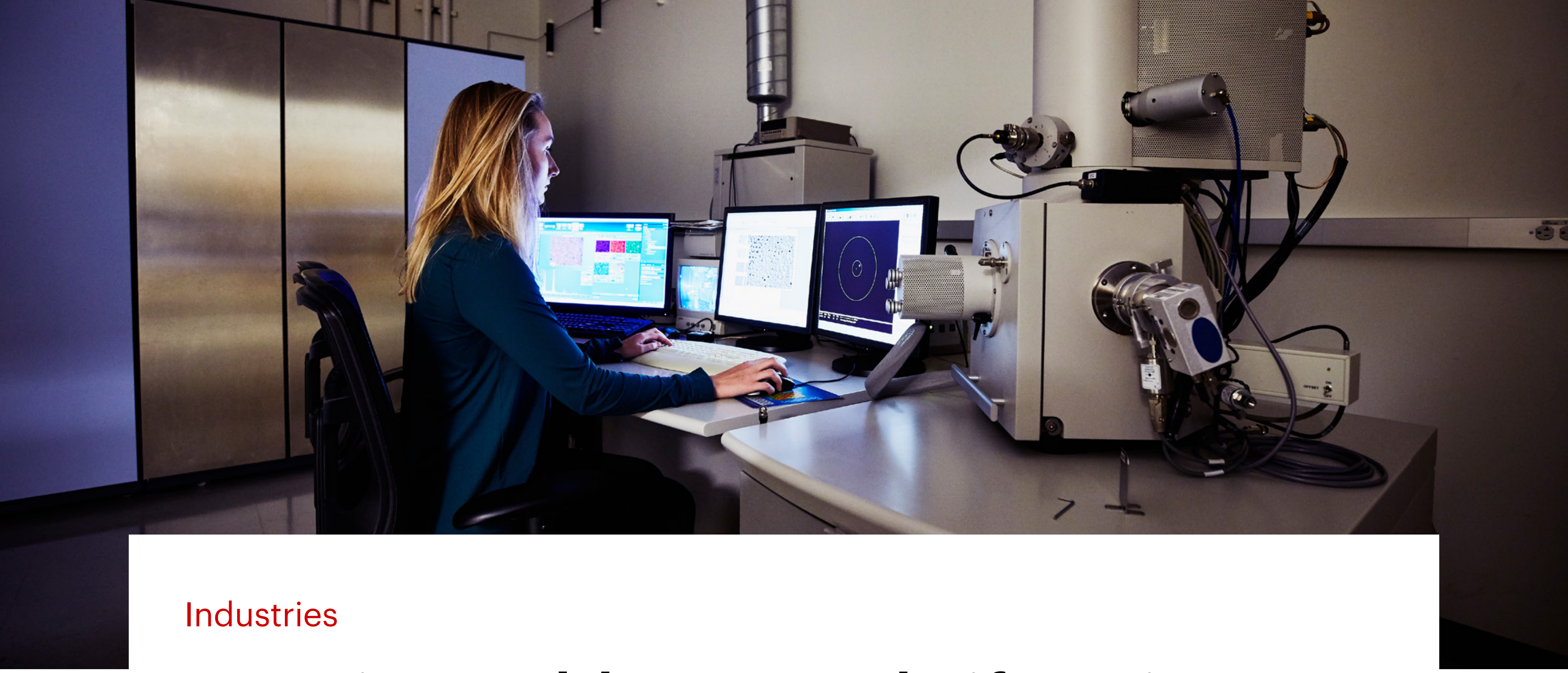
- **Clarify your business model for the energy transition.** When it comes to making deals to scale their energy transition, different companies are placing different bets on where the profitability and growth will be across the value chain. Some are seeking to become green energy operators and lead the development and operation of energy transition assets; these companies work to transform their entire portfolios. Other companies are more targeted in their participation strategies, opting to establish leadership in specific emerging technologies or build technical expertise to become a differentiated service provider. Either way, companies need to clearly articulate their model.

- **Identify pinch points in value chains and where you need to be a first mover vs. a fast follower.** In some markets, the first mover will have significant strategic advantages and be positioned to capture the majority of the profit pool. In circular plastics, for instance, it is critical to gain access to feedstocks by forming partnerships or joint ventures with local waste companies. Eastman Chemicals did this by entering into joint ventures with waste and recycling companies in France, which then feed their chemical recycling facilities. There is only so much recycled content in any given market, however, which creates a winner-takes-all dynamic and rewards the first mover. What makes a joint venture succeed? The most important things we found were overinvesting in partner fit assessment up front, having top management involved from the start (and staying involved), and establishing governance that takes a win-win approach. Joint ventures only work when everyone wins.

- **Determine the appropriate ownership structure across the value chain.** Is it build or buy? And if it's buy, decide whether to partner or pursue joint ventures vs. M&A. Bain analysis across industries found that among the 58 most successful Engine 2 businesses, 40 used M&A as a significant part of their scaling plans. In deciding whether to buy or build, companies must ask themselves three key questions: Does the capability or required asset exist? Is the return on investment higher if buying it than building internally? Can you articulate a parenting advantage? For companies that decide to acquire the expertise (rather than build it), it would be a mistake to then try to acquire via M&A all steps in the value chain, some of which may have different business models or require different capabilities to win. There are many nontraditional partnerships emerging that are crossing traditional industry boundaries. One example of such cross-industry collaboration is Engie's partnership with Air Liquide to produce, store, and distribute green hydrogen.

- **Be more targeted in M&A.** A recent Bain survey found that 66% of M&A practitioners in ENR are more selective in the deals they pursue. In this challenging environment, good corporate strategy is more important than ever to define the company's M&A mission. For example, Phillips 66 has recently focused its energy transition mission on biofuels and pyrolysis oil that will leverage the strengths of its existing core business while paring back other organic and inorganic investments that don't, such as the production of green hydrogen.

- **Pursue creative financing strategies for energy transition projects.** Many companies' balance sheets are stretched and don't have capital available. Yet, there is a growth segment of private equity investors dedicated to the energy transition that are willing to participate on a project-specific basis. For example, BlackRock has agreed to invest $550 million in the world's biggest direct air capture project, which is being developed by Occidental Petroleum. In 2022, BlackRock raised $4.5 billion toward an eventual $7.5 billion climate investment goal from global pension funds, insurance companies, and sovereign wealth funds. Similarly, Brookfield Asset Management in 2022 collected $15 billion in capital for an energy transition fund, and the firm is currently collecting for a second fund that it expects to be even bigger. With tight balance sheets and availability of traditional equity and debt much more limited, particularly in oil and gas, companies should look to tap these nontraditional sources of capital more aggressively. There is meaningful dry powder that needs to be put to work.



Industries

M&A in Healthcare and Life Sciences: A Shrinking Margin for Error in Deals

Why there's more pressure to make deals that create value.

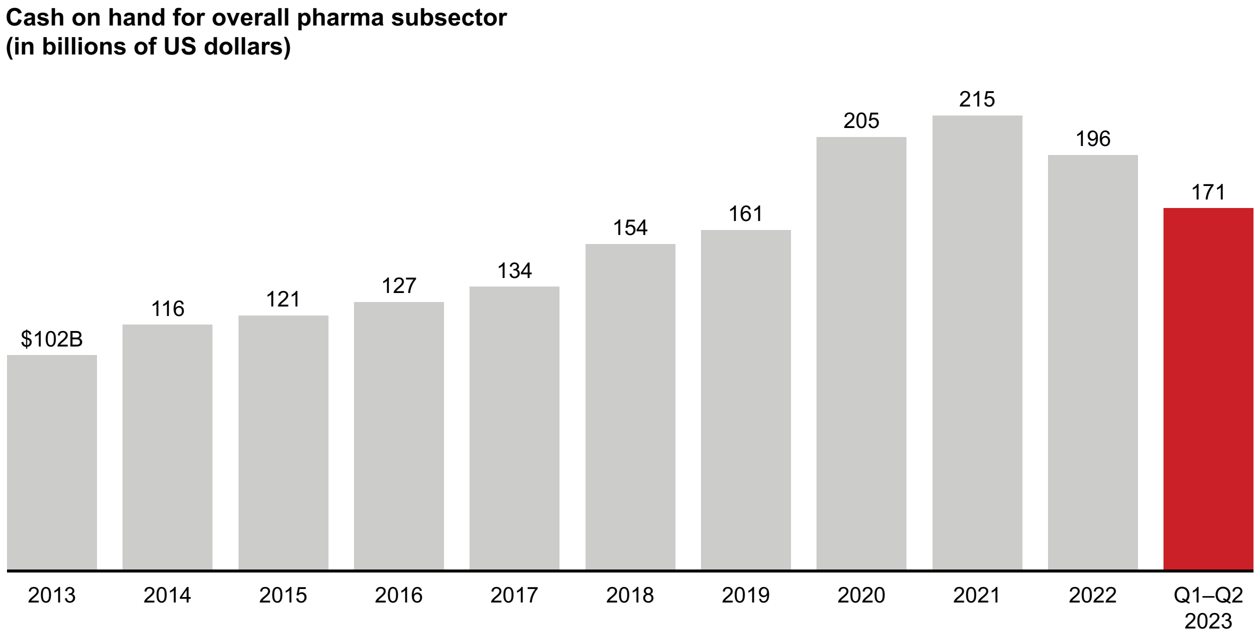
By Jason Asper, Allen Granzberg, Kai Grass, Jessica Basham, and Sarah Yanes

At a Glance

- In 2023, deal volume declined across sectors, but deal value rose because of notable megadeals in pharma and medtech.
- Revenue growth is more important than margin growth in healthcare, making M&A an attractive path—and the industry has a lot of cash.
- 80% of healthcare executives surveyed expect to do the same amount or more deals in 2024.
- As the margin for error shrinks, dealmakers must double down on fundamentals to improve their M&A strategy and capability.

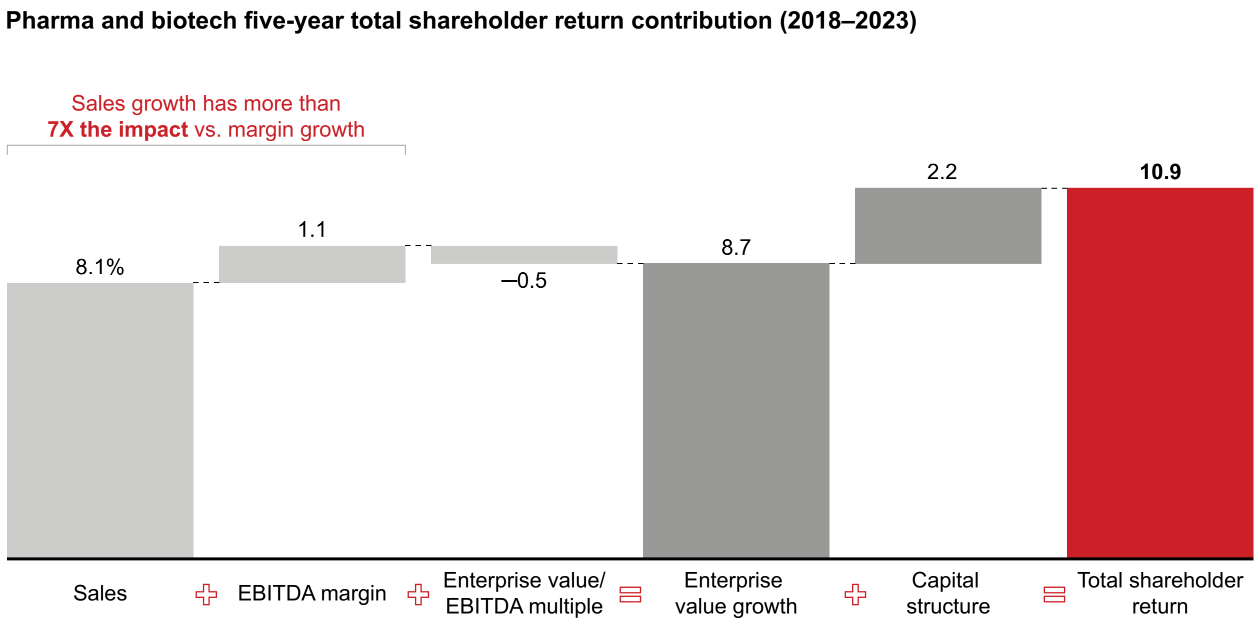
This year demonstrated that despite high interest rates, regulatory scrutiny, and macroeconomic uncertainty, the healthcare and life sciences industry can't keep M&A on the back burner for too long. And we anticipate this trend to continue. The industry is sitting on high levels of cash—$171 billion across pharma companies *(see Figure 1)*. Also, top-line growth has a disproportionate impact on total shareholder returns (TSRs) in this industry. In pharma, for example, revenue growth has a seven times greater impact on TSR than margin growth, making inorganic growth especially attractive *(see Figure 2)*. It was not surprising that in our survey of M&A practitioners, 80% of healthcare executives predict that they will do as many or more deals in 2024 than they did in 2023.

Figure 1: Pharma subsector has $171 billion in 2023 cash reserves



Sources: S&P Capital IQ; Crunchbase

Figure 2: Sales growth has had more than seven times the impact on total shareholder returns as margin expansion in pharma and biotech



Note: Based on weighted average of pharma and biotech companies (N=195) within universe of global top 10,000 companies by market cap as of September 30, 2023
Sources: S&P Capital IQ; Bain analysis

Unlike many other industries, healthcare saw an overall uptick in 2023 deal value. The pharma and biotech subsector led the way with a 73% leap in deal value despite a 10% drop in volume for the first nine months of the year. On top of that, the year ended with AbbVie making two acquisitions worth a total of $19 billion and Bristol Myers Squibb's plan to buy Karuna Therapeutics for $14 billion, continuing a new industry tradition of year-end deals.

Deals such as Pfizer's $45.7 billion purchase of Seagen and Merck's $11 billion acquisition of Prometheus demonstrated that the megadeal is still alive and kicking, albeit occurring less frequently. We also saw the close of Amgen's $27.8 billion acquisition of Horizon Therapeutics, a deal that finally made its way through regulatory clearance.

Medtech saw an increase of 36% in deal value despite a reduction in the number of deals during the first three quarters. With the exception of the NuVasive-Globus Medical merger, most of the activity in medtech involved scope deals, such as Abbott's acquisition of Cardiovascular Systems, aimed at enhancing category growth, filling portfolio gaps, or divesting unproductive assets.

M&A deal activity in payer, provider, and healthcare services continued to stay relatively low. The sector's most notable deals were led by large payer/healthcare service companies buying providers, such as CVS Health's purchase of Oak Street Health and the acquisition of Amedisys by United Health's Optum division.

The focus on scope deals continued, accounting for 89% of the health and life sciences deals during the first three quarters of 2023. It's a trend that will continue as companies look for assets that can provide them access to disruptive technologies or product category innovation.

As part of their M&A strategy, healthcare companies are looking to divest noncore or underperforming assets. Sixty percent of surveyed M&A practitioners in healthcare and life sciences say that they are evaluating assets to divest. In medtech, recent examples include Baxter's sale of its biopharma services business and proposed spin-off of its renal business, as well as Medtronic's separation of its patient monitoring and respiratory interventions businesses.

We have seen more companies spend the year focusing on ways to improve their M&A capabilities. The margin for error has shrunk for getting the anticipated return for any M&A in healthcare and life sciences. Among the biggest challenges is that deal multiples remain relatively high. Mounting efforts to decrease government spending (as in the Inflation Reduction Act in the US) are putting more pressure on future revenue, especially in the areas of healthcare in which the government is a big spender. Regulatory scrutiny is being applied to a broader swath of deals and introducing new risks because of closing delays.

In the year ahead, we expect the following:

- With massive cash volumes on hand, pharma companies will look for innovative assets to acquire in traditional areas, such as oncology and rare diseases, as well as emerging areas, such as weight loss, cell and gene therapies, and precision medicine. While there may be continued demand for biotech targets, such as AbbVie's recent deals, many other sellers may retain their stance and avoid selling at low valuations despite macroeconomic pressure and lower funding levels.

- In medtech, we anticipate more deals in 2024 aimed at delivering growth, technology access, innovation, and category leadership. Companies will continue to rely on divestitures to optimize portfolios. While companies such as Boston Scientific recently invested in Asia, many others will hold off as they debate what level of investment they should make there and how to gain a manufacturing foothold.

- In payer, provider, and healthcare services, we expect low deal volumes to continue. That said, large payers will continue to leverage M&A for scale or deliver care at a lower cost. In addition, regional providers will pursue deals for scale in primary care, home health, and facility care.

With increasing pressure not only to do deals but to improve the odds that they will deliver the intended results, healthcare and life sciences companies need to focus on improving both their M&A strategy and capabilities. Here's a checklist for 2024:

- Maintain a deal pipeline, and revise your target lists and deal models in light of interest rates, potential valuation changes, and the emergence of new technologies.

- Invest in disruptive technology. Emerging technologies such as generative AI can fundamentally change your business model. Consider deals to build new capabilities for your organization—and do so before you find yourself lagging competitors. (And know how leading companies are using generative AI to improve their M&A processes.)

- Anticipate the moves that your competitors will make, knowing that some deals have been waiting for years.

- Reevaluate your portfolio with a sharper focus. On the one hand, identify which of your businesses may be better positioned with a new owner. On the other hand, invest to understand the benefits of acquiring for category leadership and the steps to achieving it.

Finally, in this environment of high interest rates and high multiples, corporate diligence and deal execution capabilities will need to be stronger than ever to justify the cost of the deal. Ensure that talent has the capabilities and processes to identify, substantiate, and deliver on synergy goals and other critical deal objectives.

Industries

M&A in Media: Big Changes Are Forcing Bold Moves

Will creative partnerships build media champions?

By Laurent Colombani, Daniel Hong, and Matt Keith

At a Glance

- Media companies are aggressively exploring divesting noncore assets to position for the decline in linear TV.
- The industry is turning to M&A as subscriber growth without profits is no longer rewarded by the market.
- Some are engaging in bold joint ventures with competitors.
- Deals that expand the pie for everyone present a new, more collaborative go-forward business model.

Media companies are watching their world change in two dramatic ways.

For one thing, they're dealing with the accelerating decline of linear TV, which has supported the industry for decades. Viewing of network and cable TV dropped to its lowest levels ever in 2023 while streaming TV viewing reached a record high, according to Nielsen. But even as streaming viewership rises, companies are grappling with the end of streaming media's profitability free ride. Wall Street demonstrated that it no longer is satisfied with subscriber growth at all costs. When the number of Netflix's paying subscribers declined for the first time in a decade in 2022, the pioneering company's stock fell by more than 50%, triggering an industry-wide shift to focus on profitability with moves such as reeling in booming content costs.

Adding to the challenge for media companies, these two changes are taking place in a relatively tight regulatory environment. Media companies can be high-profile targets for regulators, and the wave of scale consolidation in the industry (Disney-Fox, CBS-Viacom, Warner Bros.-Discovery) has reduced the number of M&A moves on the gameboard.

Some media companies are responding to the pressure to grow profits by divesting noncore assets that won't be as valuable in a world without historical linear TV cash flows. In France, Groupe M6 sold its portfolio of nonvideo websites in 2023 to focus on transforming its TV and video streaming core, closely following direct competitor Groupe TF1, which embarked on a similar path a year earlier.

Some are entering bold joint ventures or commercial partnerships—at times with former fierce competitors and at times in areas they previously resisted. This was the path taken by ESPN in its deal with Penn National Gaming. ESPN will get $2 billion over 10 years to allow Penn to rebrand its gambling app as ESPN Bet.

More media companies will be turning to different flavors of M&A in 2024 to get out ahead of the evolving industry. We asked eight major media players their expectations for deal activity next year, and all of them said that they would do either the same number of deals or more deals. And whichever ways these companies react—be it by divesting businesses, partnering with competitors, or acquiring for new capabilities—it will take a huge shift in thinking to make the necessary moves and engage in the rigorous planning that will lead them to success. Here's what the best media companies will do.

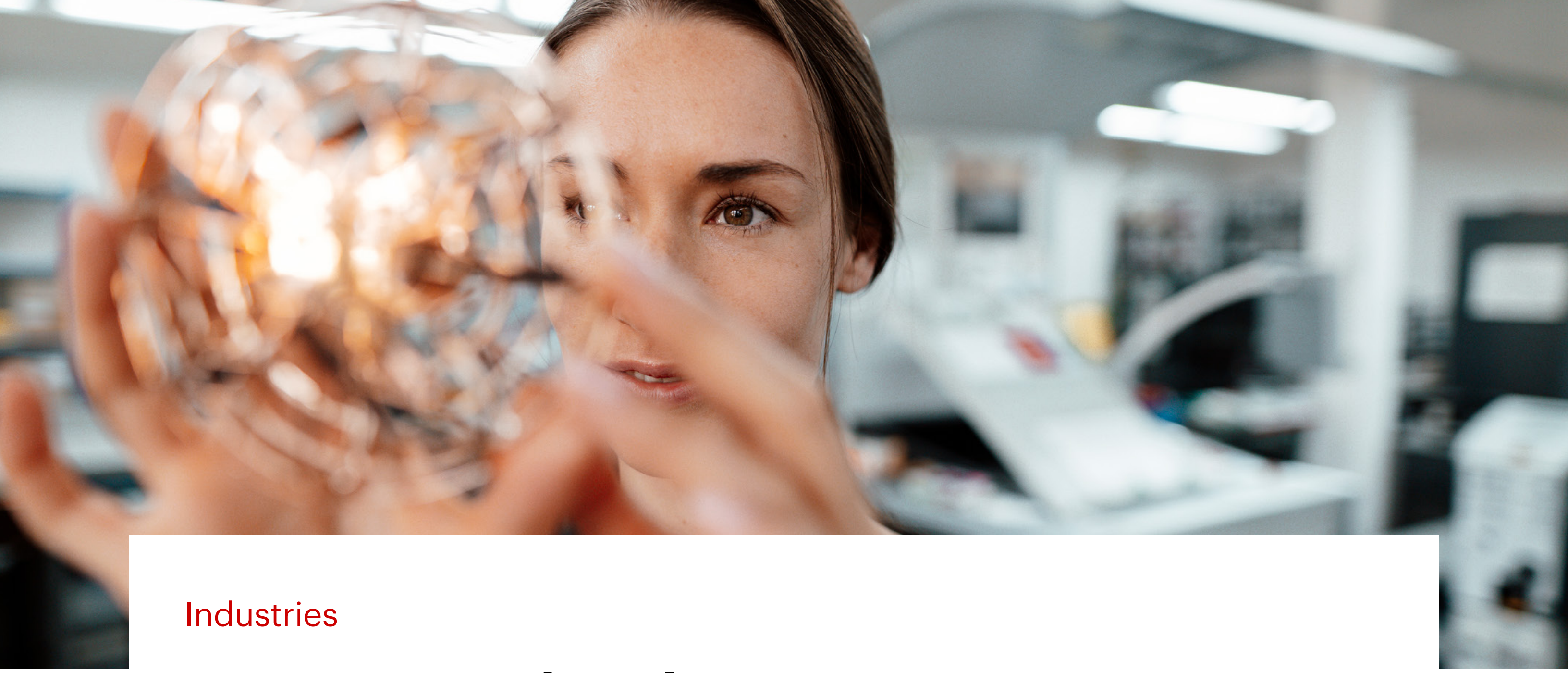
Think several steps ahead for divestitures. In such a rapidly evolving industry, success will require companies to have a strong multiyear strategy as well as a clear view of how the industry gameboard is evolving, winners and losers, and which pieces will be the most valuable to which companies. The best players will put themselves in the shoes of potential buyers and consider how their assets could be worth more money to someone else. They'll understand how different strategic buyers could value and use their assets to grow a core business. They also won't wait until the last minute to start operating a business slightly differently that might be for sale in the near future. Cost efficiencies that fall to the bottom line before the sale will always be valued higher than potential future opportunities.

Consider ways to expand the pie for all with partnerships. Companies can work together to everyone's benefit—as opposed to taking a zero-sum approach within the standard negotiation framework. In a big reversal, studios are licensing more of their owned content to Netflix, ending their policy of hoarding one's content to boost streaming subscriptions. Netflix's scale and leading position in streaming allows it to pay up for its competitor's titles. At the same time, the arrangement is a way for competitors to improve profits, and it also serves as a marketing push.

For example, *Dune* (2021) on Netflix will aid Warner Bros. Discovery by boosting awareness (and thus likely the performance) of *Dune: Part Two* in theaters.

Anticipate the end game of joint ventures. Hulu was a novel creation launched in 2007 as a joint venture by three traditional studios to ensure that Apple wouldn't have the same leverage over movies and TV as it did over the music industry. Hulu became one of the largest streaming services in the US and successfully led the industry in the move to incorporate advertising into the premium streaming model. But now, unwinding it is proving to be challenging. The big lesson learned: Companies engaging in such arrangements need to come to the table with an investment thesis that not only spells out the upfront value but also includes carefully considered plans for untangling and moving on when the joint venture outgrows its usefulness.

Address dis-economies of scale head-on. For years, scale consolidation of traditional media companies meant achieving cost synergies through realizing economies of scale from mature assets such as TV networks and movie studios. Ironically, the companies most successful in achieving these cost benefits will face the opposite challenge if they choose to untangle and carve out targeted assets such as select TV networks. They'll likely be stuck with stranded costs that are extremely difficult (and in some cases impossible) to eliminate directly—for example, the costs of large technology systems and central corporate functions that are leveraged across the business. The most successful companies will use a separation as a moment to transform their shared services by removing and offsetting stranded costs to emerge margin neutral, or even positive.



Industries

M&A in Technology: Getting Serious about Product Synergies

Artificial intelligence and a challenging deal environment force companies to get strategic about combining products.

By Adam Haller, Erin Gillman, and Elizabeth Trenkle

At a Glance

- Product synergies are often hypothesized but not valued, therefore they don't get the investment rigor and focus needed to make them a reality.
- Companies no longer have that luxury given the current market environment of high interest rates, a valuation gap, regulatory scrutiny, and intensifying disruptive innovation.
- Bringing product portfolios together will be more important to achieving longer-term value from deals.

While many a tech acquisition starts with lofty aspirations for groundbreaking new capabilities and growth that can be unlocked by combining the tech from the target with the acquirer's portfolio, rarely do these product synergies materialize. Companies may dutifully write product synergies into the deal thesis, but they then typically fail to provide the funding and rigorous planning required to make them happen.

Until now, companies could make acquisitions succeed with base business growth and cost synergies alone. But in today's market, they no longer have that luxury. Times are tough for acquirers. Higher interest rates make deals more expensive. Macroeconomic uncertainty endures.

And regulatory scrutiny lengthens pre-close timelines and threatens the possibility that deals will even close.

Yet, in this environment, M&A has never been more important for a technology company's strategy, according to our recent M&A Practitioners' Survey. Technology innovation still roars ahead at its rapid pace, with artificial intelligence (AI) reaching an inflection point in 2023, which raises the stakes for companies to expand and reinvent their offerings as data becomes the new business currency. And despite the AI-dominated headlines, cybersecurity, the metaverse, the intelligent edge, and other disruptive trends also are creating a need for companies to innovate—or else risk being left behind. For many in the industry, it's time to reset and reinvent via M&A.

But these are not the best of times for tech dealmakers. Overall, volume dropped 26% in the first 10 months of 2023, and value was down by 59%—more than almost any other major industry. Despite the macroeconomic challenges, however, deals were still getting done, more than 4,100 during the first nine months of the year. While 31 of those deals were valued in excess of $1 billion, the bulk were smaller scope deals aimed at expanding into new market segments or accessing new capabilities.

Companies that move with speed and boldness can still find good opportunities. In fact, there are signs that the lackluster deal activity could improve. In 2023, valuations dropped by roughly 45% from post-pandemic record highs to a median 13 times enterprise value–to–EBITDA multiple *(see Figure 1)*. The valuation gap between what sellers need and what buyers are willing to pay may be narrowing. In our survey of tech industry practitioners, 42% saw an easing of the valuation gap as key to unlocking deal flow, and roughly 40% expect the gap will decrease next year.

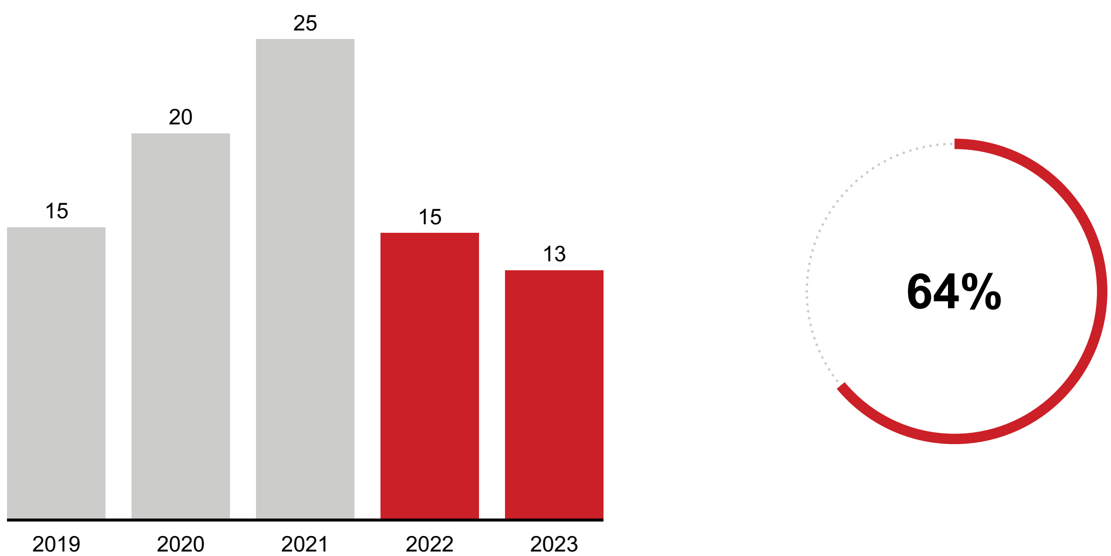
This comes at a time when growth is riskier and more certainty and early planning is needed to turn a deal strategy into reality. In our 2022 report, we wrote about the importance of realizing immediate post-close revenue synergies through focused go-to-market (GTM) efforts. Now, those that get deals through will also need to focus on bringing the product portfolios together, which will be increasingly essential to achieving longer-term value from the deal. And that will be even more critical for success among the growing number of acquisitions for which AI is a key part of the deal thesis. The deal multiples are higher, the technology is comparatively unproven, and the value comes from unifying data sets and reinventing offerings to capture new opportunities for product or service differentiation. Companies need to plan their long-term strategy for putting those technologies together to power the AI use case or create a bigger and better data set.

In the Bain M&A Practitioners' 2022 Outlook Survey, we asked about the difficulties in achieving revenue synergies. Respondents told us that a failure to integrate the product portfolio was cited as the most common reason why companies were unable to capture revenue synergies *(see Figure 2)*. While many dealmakers have perfected their ability to estimate near-term revenue synergies, they often have massive plugs in the model for these vital longer-term product synergies, with little view into how to actually achieve them. They now need to devote equal energy to product integration,

Figure 1: Despite declining tech valuations, practitioners still believe there is a gap in buyer/seller expectations; resolving this will be critical to unlocking deal flow in 2024

Tech strategic deal multiples (enterprise value to EBITDA)

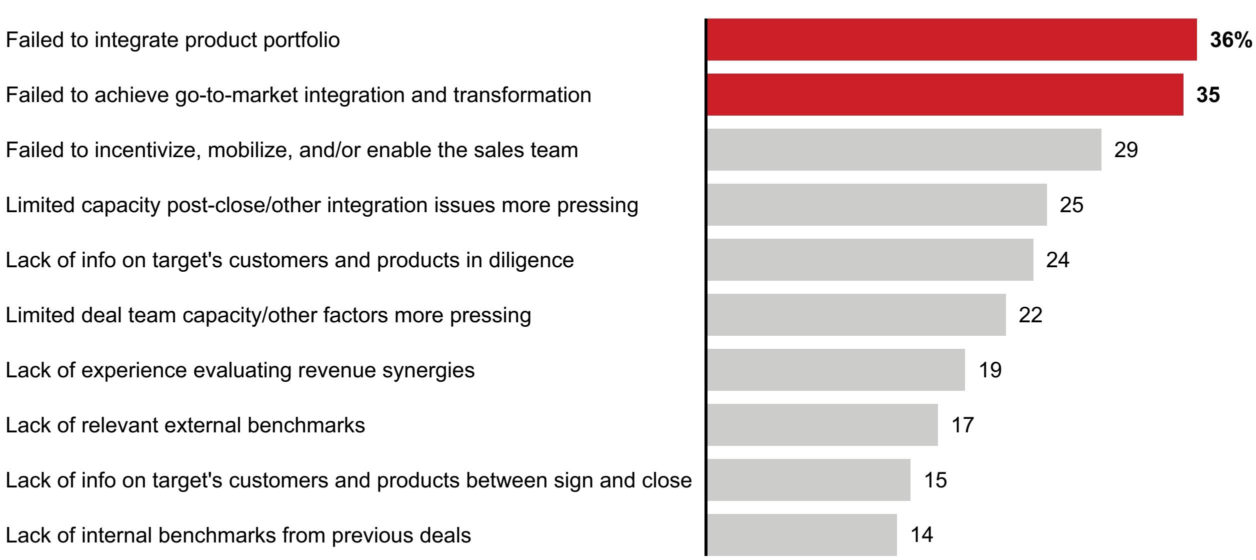
Tech practitioners who believe there is a valuation gap



Sources: Bain M&A Practitioners' 2024 Outlook Survey; Dealogic

Figure 2: Ineffective product portfolio integration was the most common reason cited for a failure to capture revenue synergies

Top challenges to capturing revenue synergies



Source: Bain M&A Practitioners' 2022 Outlook Survey

the longest term (and therefore the least certain) of all synergy drivers. That means strategically bringing offers together, developing differentiated new customer value propositions, and building integrations or unified platforms that, in turn, enable the longer-term revenue synergies.

What does good look like? Consider how Adobe's multiple acquisitions have helped expand its cloud platforms, such as Marketo, which in 2018 became part of its Experience Cloud. Adobe puts emphasis on product integration to realize a seamless "better together" user experience, one that it has turbocharged over the past year by embedding AI-enabled features into many of its well-known design tools.

Why is this so hard? We see three common oversights.

The first hurdle involves keeping customer intimacy top of mind throughout the deal cycle. In diligence, companies typically don't use a deep customer lens when developing the combined offers and use cases. Then, post-announcement, there's a lack of proactive customer communication about the combined company vision—something that can result in competitive reversals and churn. Companies need to perform diligence with the objective of learning what customers actually want (joint offers or compelling use cases, for example) before defining a high-level roadmap of priorities and related investments for potential synergy product offers. This needs to be nailed down before closing the deal. And companies need to make it a must-have deliverable on day one to communicate the near-term and long-term priorities externally. The sooner they can make commitments, the sooner they can fend off competitors who are trying to sow uncertainty into the minds of customers.

The second challenge centers on the need to align and motivate key talent. A product vision and strategy require agreements across stakeholders from different functions within *both* organizations. That's difficult to manage in early days. But mismanaging this process can cause critical leadership to depart, jeopardizing the integration. Building early alignment on the end product vision and what it will take to get there (again, grounded in a compelling "better together" customer value proposition) can inspire talent.

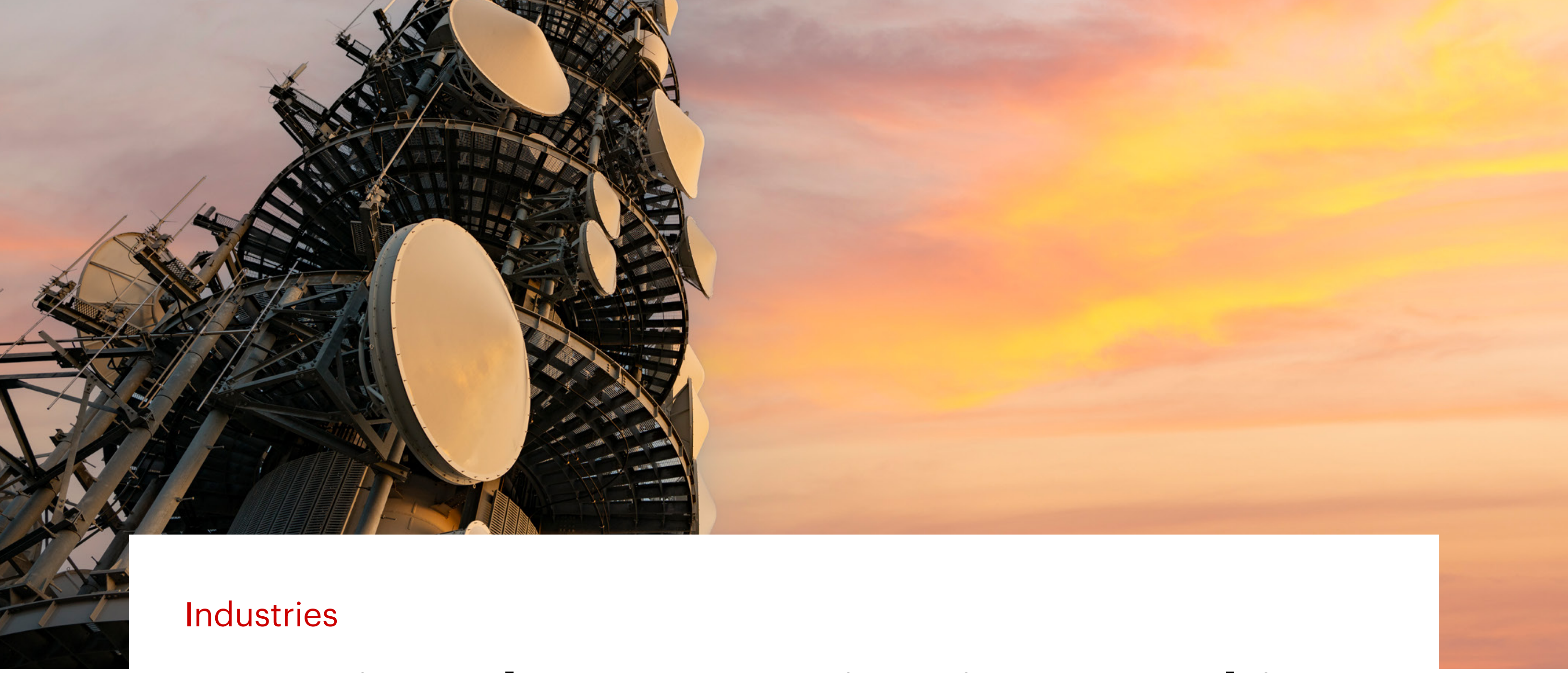
The best companies pull forward strategic product planning with a dedicated cross-functional team as part of the integration management office. They help clarify the early development work needed to support day-one joint offers as well as the long pole development that underpins broader platform plays to hit the ground running. Product planning teams must move in lockstep with GTM planning teams to ensure that future products/bundles are priced and packaged to resonate in the market and that sales teams are retrained and the technical support is in place to sell the new joint value proposition.

As a big part of the talent equation, the best acquirers take a tailored approach for different technical talent populations, using both financial and nonfinancial levers. They host joint sessions with key product leaders, clearly and quickly answering the "what's in it for me" basics and addressing the inevitable "elephant in the room" issue about how teams will come together to support the longer-term product strategy and vision. Also important is tailoring the cultural integration approach to specific talent subcultures.

The best companies pull forward strategic product planning with a dedicated cross-functional team as part of the integration management office.

Finally, technology company acquirers face the challenge of refocusing their energy and investment on creating long-term value. Amid competing priorities and operational fire drills, it's easy to deprioritize the critical decisions and investments that will spur long-term value. Without a clear integration thesis, organizational energy and corresponding investments may be misplaced. This is unsurprising. There are competing priorities: How much do we invest in the base business, and how much do we invest to generate the true synergies that are the basis of the deal? Achieving both requires a systematic and data-driven approach—something that's much easier to say than do. At the best companies, every investment dollar follows strategy. That means establishing clarity on R&D spending—namely, ring-fencing incremental investments, defining criteria for evaluating synergy investment opportunities, and establishing a centralized mechanism for strategically allocating funds based on business cases.

Too many companies stumble in their product integration planning. The best acquirers do these three things right to put themselves on the best path to success from the onset.



Industries

M&A in Telecommunications: Making the Right Selective Bets in a Tough Environment

High inflation, regulatory uncertainty, and buyer-seller valuation gaps dampened telecom deals last year.

By Thomas Fidler, Herbert Blum, Andrew Rodd, and Siddhartha Karri

At a Glance

- Telecom M&A deal value declined by 39% during the first three quarters of 2023, for the second consecutive down year.
- More than 80% of deal value involved either in-country consolidations or infrastructure deals.
- We expect 2024 deal activity to be concentrated in specific subsectors, including fiber networks, enterprise services, and data centers.
- Regulatory scrutiny of telecom dealmaking remains uncertain, although some executives perceive it as easing somewhat.

The story of telecommunications mergers and acquisitions in 2023 was defined more by the deals that didn't happen than the ones that did. The industry's deal value declined by about 39% during the first three quarters of last year, the second consecutive down year after strong growth in 2021.

Much of the newsworthy activity took place in Europe. Slicing the data by deal types, in-country scale deals and infrastructure divestments continued to account for a majority of the value *(see Figure 1)*.

Look below the surface, and those two categories had mixed performances.

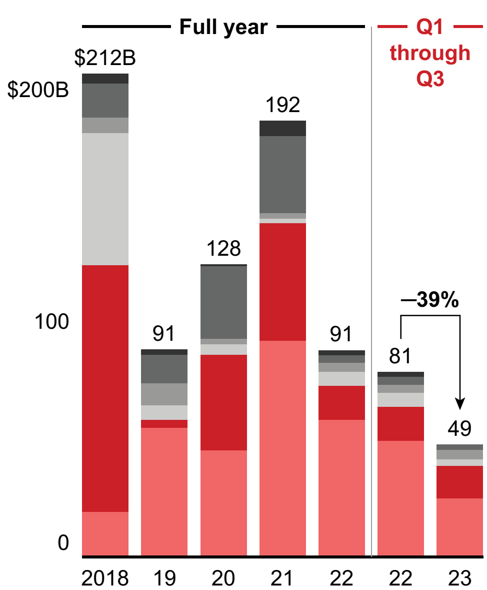
Scale deal value was flat

Telecom dealmaking remains a scale game. Macroeconomic challenges (including high interest rates) and significant capital spending across the industry create incentives for some telcos (particularly smaller or highly leveraged ones) to consolidate in order to gain scale and bolster resources. Indeed, scale deals were quite resilient amid the industry's M&A decline last year. Scale M&A value was essentially flat, down just 4% year over year in the first three quarters of 2023.

The year's biggest announced deal was a scale transaction: Vodafone and Hutchison Group, owner of Three, agreed to merge to form the UK's largest mobile network operator, with a combined enterprise value of about $19 billion. Currently running the UK's third- and fourth-largest mobile networks, respectively, Vodafone and Three are positioning the deal as a combination of two subscale operators to create a stronger market challenger with more investment resources.

Figure 1: Global telecom M&A deal value was down again in 2023, with infrastructure and scale deals accounting for 81% of total value

Telecom strategic deal value (in billions of US dollars)



	Compound annual growth rate 2018–2022	Compound annual growth rate Q1–Q3 2022–2023
Other	−16%	N/A
Full asset divestment deals	−31%	−31%
In-country scope	−13%	17%
Geographic expansion	−43%	−54%
In-country scale	−39%	−4%
Infrastructure deals	32%	−50%

Sources: Dealogic; RBC Capital; Bain analysis

Regulators blocked a union of two of the UK's largest mobile players in 2016, but Vodafone and Three's leaders hope that their deal might go through.

The valuation gap effect

In addition to macroeconomic and regulatory headwinds, mismatched valuation expectations often kept buyers and sellers from closing telecom deals in 2023, according to Bain's survey of more than 300 M&A practitioners across industries *(see Figure 2)*.

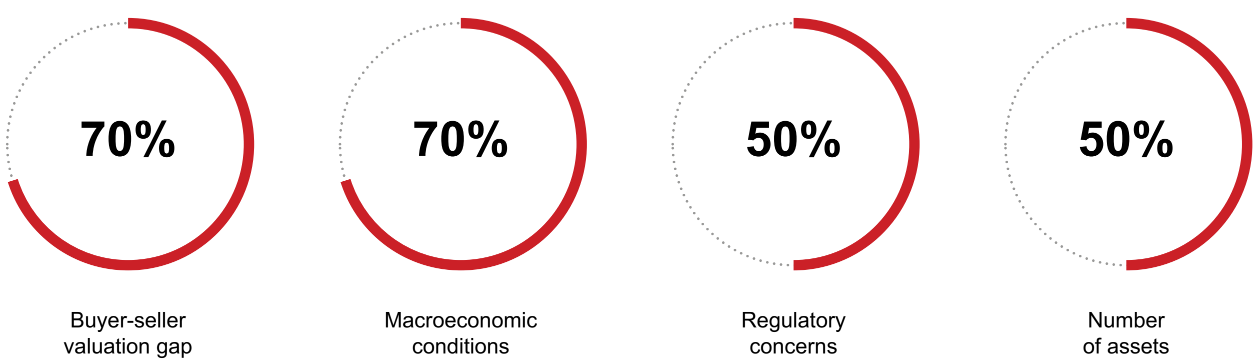
Look at the effect on infrastructure deals. While transaction multiples held steady at about 25 times throughout the first three quarters of 2023, infrastructure assets' trading multiples dropped to 14.7 times, the lowest in five years. So, even though infrastructure deals once again accounted for more than half of total telecom deal value through the third quarter, the category's value was down about 50% year over year.

Pockets of opportunity

The environment for M&A will likely remain challenging for the foreseeable future. High interest rates are pressuring many telcos to consolidate or carve out assets while adapting their M&A

Figure 2: Mismatched valuation expectations and macroeconomic conditions were the two most significant barriers to telecom deal activity in 2023

Top factors impacting deal activity in 2023 (percentage of respondents)



Source: Bain M&A Practitioners' 2024 Outlook Survey

approach: 60% of surveyed telcos are getting more selective in the deals they pursue.

This still creates pockets of opportunity for those selective bets. Here are three areas to watch in 2024.

Fiber network consolidation is coming. When interest rates were low, many fiber companies built out networks financed by debt in places such as the UK and Germany. Pressure to make a deal could grow if they don't succeed in attracting enough customers to deliver a return on investment. (For more, read the Bain Brief "Telco Fiber Networks: If You Build It, Will They Come?") In addition, many countries' fiber networks have matured enough that companies' method of value creation will shift from planting their flag and building the fiber infrastructure themselves to tapping into scale effects via consolidation. Brazil and the US are some of the largest markets where such a consolidation stage is most likely to occur.

Higher-growth segments will attract deals. We expect robust activity in enterprise services, a high-growth market undergoing significant technology shifts (e.g., copper to fiber, 4G to 5G, and on-premise data storage to public cloud). For telcos that have a small enterprise business or none at all, it could be a good time to make targeted acquisitions to add capabilities or gain scale. Enterprise services deals in 2023 included Proximus, a Belgium-based provider of digital communications and identity services, buying a majority stake in India-based Route Mobile for more than $700 million.

Other attractive segments include data centers as demand for data continues to surge amid advances in artificial intelligence, the Internet of Things, and other technologies. That can create opportunities for telcos looking to carve out data center assets to shore up their cash positions. Private equity firms will be the most likely suitors as evidenced by several of 2023's biggest data center acquisitions—for example, Brookfield's purchases of US-based Compass Datacenters for a reported $5.7 billion and France-based Data4 for a reported $3.8 billion, as well as EQT and PSP's $3 billion joint acquisition of US-based Radius. On the flip side, data centers could be a source of growth for incumbent telcos in countries where governments are seeking nationally sovereign clouds to address data security concerns. Look for telcos to continue owning and potentially expanding their data center holdings in these markets.

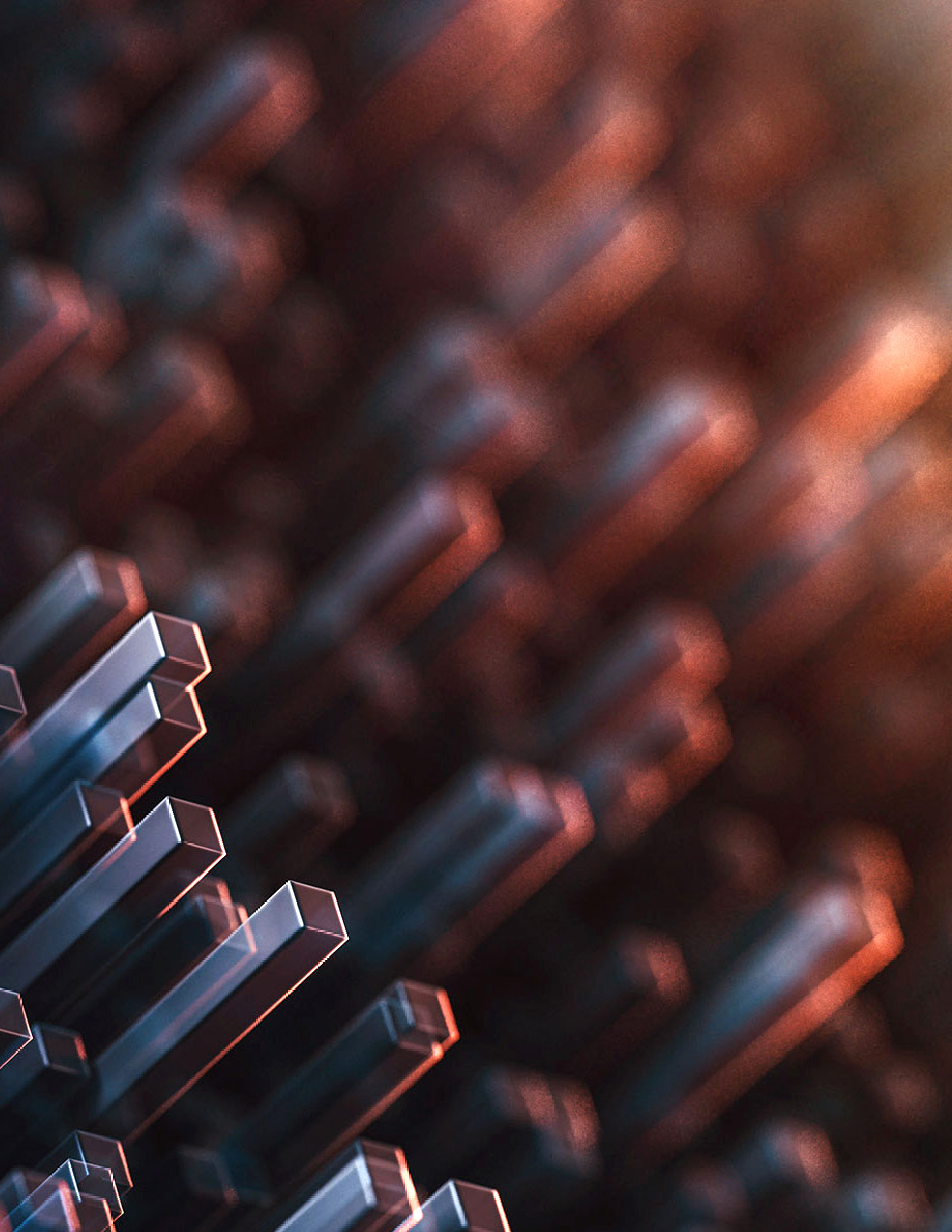
Industry dynamics might make regulators open to more consolidation. As telcos continue to invest heavily in fiber network expansion, mobile network density, and whatever succeeds 5G, scale deals could provide cash infusions. That's especially crucial as connectivity services become more commoditized, making price increases less palatable. At the same time, geopolitical uncertainty has made communications network resiliency a more critical priority for governments around the world, potentially shifting regulators' calculus in favor of consolidation. Yet, telcos will likely still need to take steps to allay competition and price concerns, such as by opening their networks to wholesale agreements.

For their part, telecommunications executives perceive regulatory scrutiny easing somewhat. In Bain's recent M&A survey, telecommunications was one of only two sectors in which executives saw less regulatory scrutiny than they did two years ago, although it remains a concern for many.

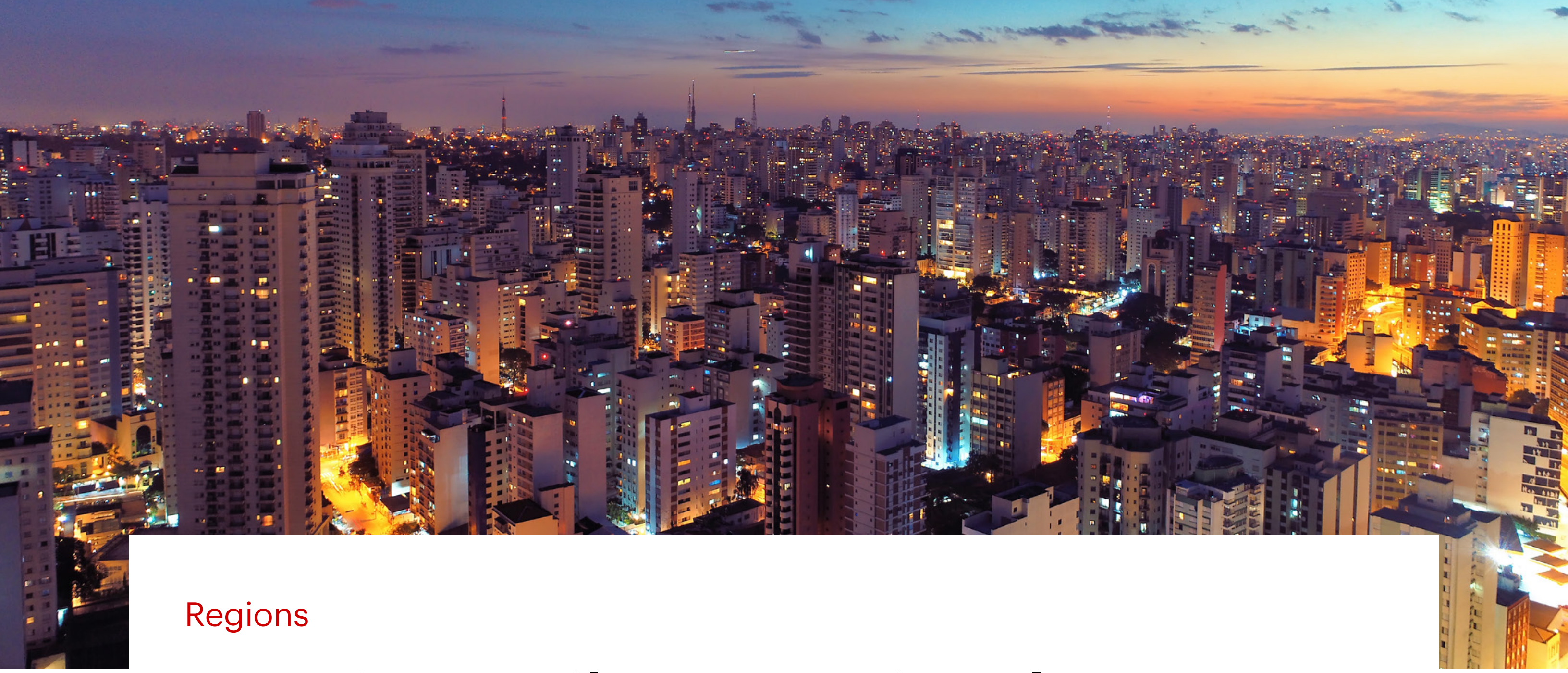
Add it all up, and about 30% of telcos surveyed by Bain expect to do fewer deals in 2024 than in 2023, one of the least optimistic industry outlooks in our survey. The buyer-seller valuation gap and the cost of debt are among the most important factors that will determine M&A activity in telecommunications, according to the survey. Meanwhile, some economic forecasters project easing inflation and stronger-than-expected economic growth in 2024.

Those dynamics remain outside of telecommunications executives' control, of course, but that doesn't mean they should sit on the M&A sidelines, waiting for conditions to improve. Winners in this market will gain an edge by proactively scanning and acting quickly when the right deal openings appear. They'll also prepare now so that they're ready to seize the moment when macroeconomic conditions do improve.

In this environment, the fundamentals become even more crucial. Leading telcos will reinforce their core businesses by shedding assets that don't fit long-term growth plans, perhaps selling to unconventional buyers such as private equity. As more telcos come under financial pressure, it will create opportunities for competitors to increase scale in their core businesses and make moves in adjacent products and services, especially in fiber and enterprise technology services. Some of these investments might feel uncomfortable right now. Yet even as telcos get more selective in their bets, the most successful ones will stay bold.



Regions



Regions

M&A in Brazil: International Buyers Act While Domestic Acquirers Show Caution

A more hopeful economy is attracting acquirers from abroad.

By Felipe Cammarata and Luis Frota

At a Glance

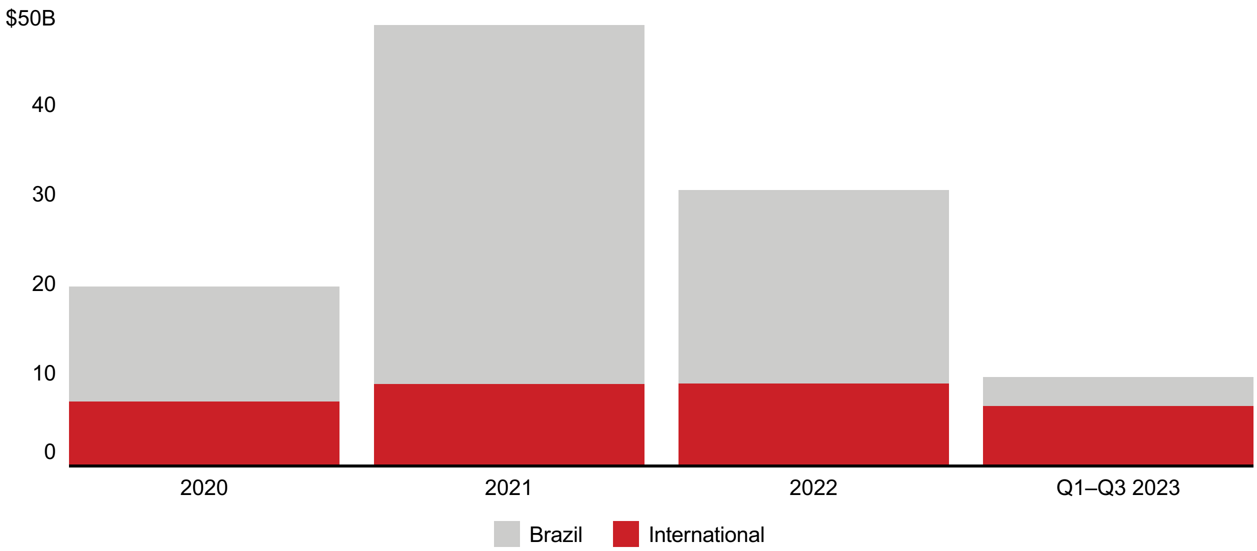
- 2023 was a down year for M&A activity in Brazil because of a reduction in domestic deals.
- The nation's central bank started cutting rates, and the International Monetary Fund raised its growth projection.
- Acquirers from Brazil and abroad need to prepare for hotter deal competition and having less time for closings.

A promising economy and policy changes that sped up regulatory review made Brazil an attractive market for foreign acquirers in 2023. Some notable domestic deals did occur, such as the merger of two of Brazil's largest shopping mall operators, Aliansce Sonae and BR Malls, in a year that started slowly but picked up following structural market tailwinds in the second half. But acquisitions by foreign buyers eclipsed those of domestic buyers *(see Figure 1)*.

The sharp decline in M&A activity in the first half of the year can largely be attributed to an environment of higher interest rates, low economic growth, and uncertainty regarding the newly established government. By midyear, however, as the central bank began to cut interest rates and the International Monetary Fund increased its projection for Brazil's economic growth by almost a

Figure 1: Domestic investors held back from the M&A scene in Brazil while foreign investment was more resilient

Strategic deal value by country of acquirer (in billions of US dollars)



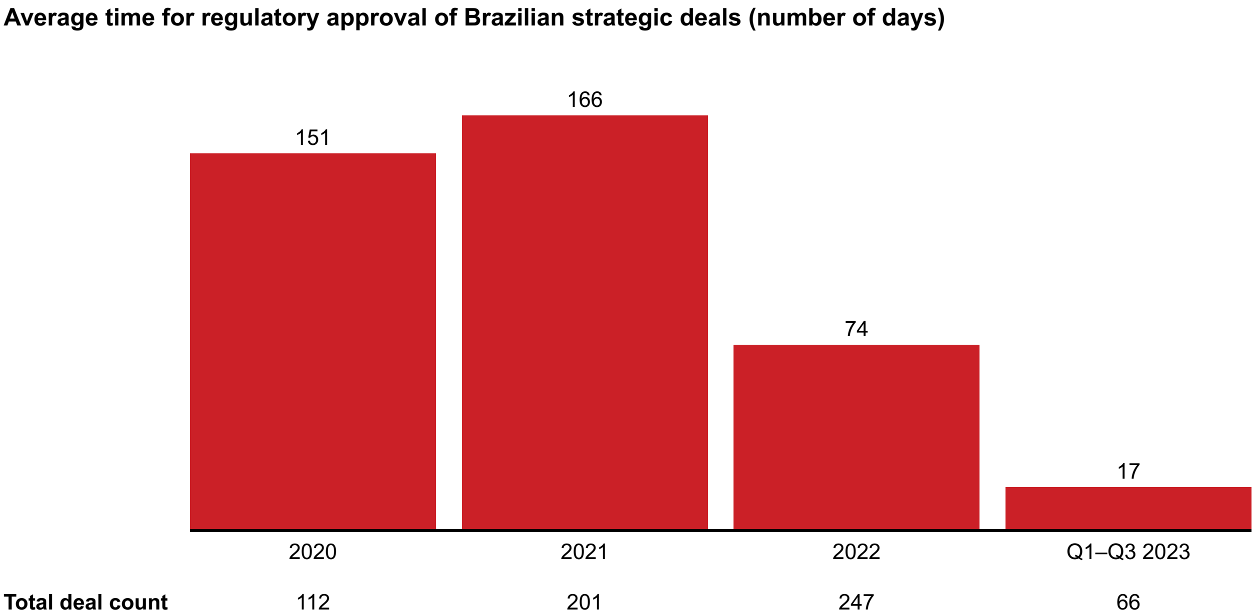
Note: 2023 includes first-quarter through third-quarter data only
Source: Dealogic

full percentage point, an optimistic outlook emerged that starkly contrasted with the backdrop of a global slowdown. Further improving conditions, Brazil's Administrative Council for Economic Defense (CADE) bucked the global trend of increased regulatory scrutiny with a commitment to a speedier M&A approval process. In the first nine months of the year, CADE's ambition to process antitrust reviews within 30 days had already been achieved for deals greater than $500 million, making that critical step happen four times faster than it did in 2022 *(see Figure 2)*.

For foreign acquirers, the dampened competition from domestic players and favorable market conditions created unique opportunities. In contrast to domestic buyers who scaled back M&A activity amid perceived misalignments in valuations and high interest rates, foreign acquirers acted on assets that were comparatively underpriced vs. many emerging markets and made bold moves in a time of transition.

As the world's third-largest producer of battery metals, which are critical to the electric vehicle supply chain, Brazil's energy and natural resources (ENR) industry saw a boom from international interest (for more, see "M&A in Automotive and Mobility: Deals to Secure a Place in the Industry's Future"). Among the $8.2 billion of foreign M&A value in the ENR sector was the sale of a 13% stake in Vale's energy transition metals business to both Manara Minerals of Saudi Arabia and investment firm Engine No. 1 for $3.4 billion. Consolidation opportunities in the financial services sector also

Figure 2: Average approval time in Brazil in 2023 was about four times faster than 2022



Notes: 2023 includes first-quarter through third-quarter data only; includes sample of 10 deals valued at greater than $500 million for each year; only seven deals met this criteria in 2023
Source: Dealogic

caught the attention of foreign acquirers, with Talanx of Germany becoming one of the top insurers in Latin America by acquiring companies from Liberty Mutual.

By the second half of the year, domestic acquirers were back in the game. While much of the activity early in the year involved the sale of distressed assets or was prompted by the need to reduce debt, domestic players began taking advantage of lower interest rates after the central bank initiated a rate-cutting cycle in August. One such example was Minerva Foods' $1.5 billion acquisition of 16 slaughterhouse plants in Latin America from rival Marfrig Global Foods in a transformational deal expected to double its production capacity.

As domestic dealmakers shake off the dust from a relatively low year of M&A activity in 2023, the market for the year ahead is likely to look different. Regulatory timelines are continuing to shorten, macroeconomic factors are increasingly favorable, and the presence and attention of international acquirers is unlikely to subside. Domestic private equity funds also have substantial dry powder after being largely absent from the market in 2023.

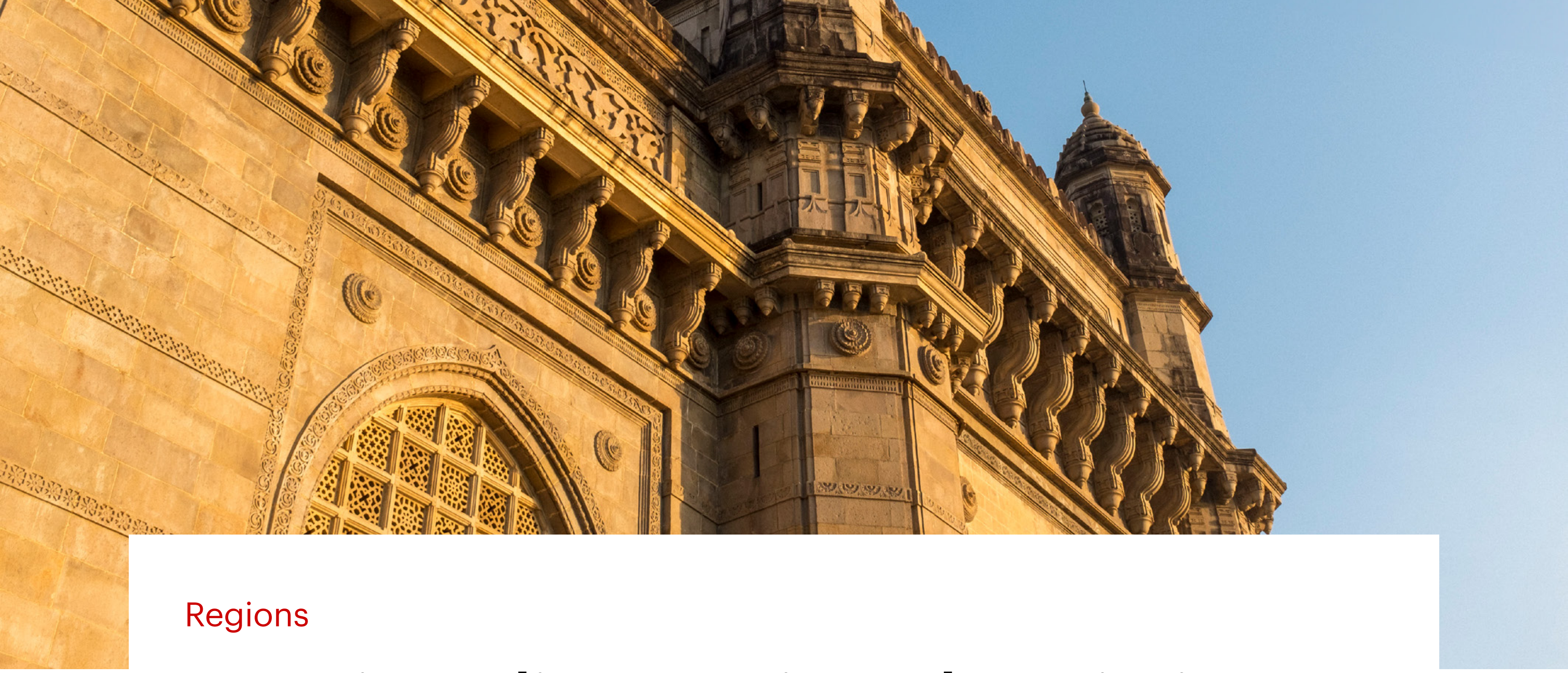
Yet while deal math may get easier, competition will increase. And companies need to be ready to act.

With momentum picking up, it is imperative that buyers have a clear M&A strategy and a robust screening and sourcing process to identify potential opportunities in a market that could become crowded with new competitors. As industries remain ripe for transformation, winning companies will keep an eye on bold moves—such as the impending disruption of the online banking sector or the burst of activity expected in renewables—to avoid getting left behind.

To maintain momentum, it's critical to have the end goal in mind. That means defining future governance structures and integration plans early.

Meanwhile, the shortening of the approval process comes with its own new challenges. As turnaround times for antitrust approvals decrease, some of the big risks inherent to many deals diminish. Leaders will worry less about the flight of key talent or the potential loss of focus on the base business, but it also means that companies have less time to prepare for the new company's day one. To maintain momentum, it's critical to have the end goal in mind. That means defining future governance structures and integration plans early. It means ensuring clarity on synergy targets and having a clear roadmap to value creation. Companies that outpace competitors will make certain that key people are involved and ready to hit the ground running when the deal does close.

Time is now of the essence in Brazil.



Regions

M&A in India: Continued Optimism Fuels Momentum

Midmarket dealmaking takes the lead as India's M&A market stays strong.

By Karan Singh, Vikram Chandrashekhar, and Palak Garg

At a Glance

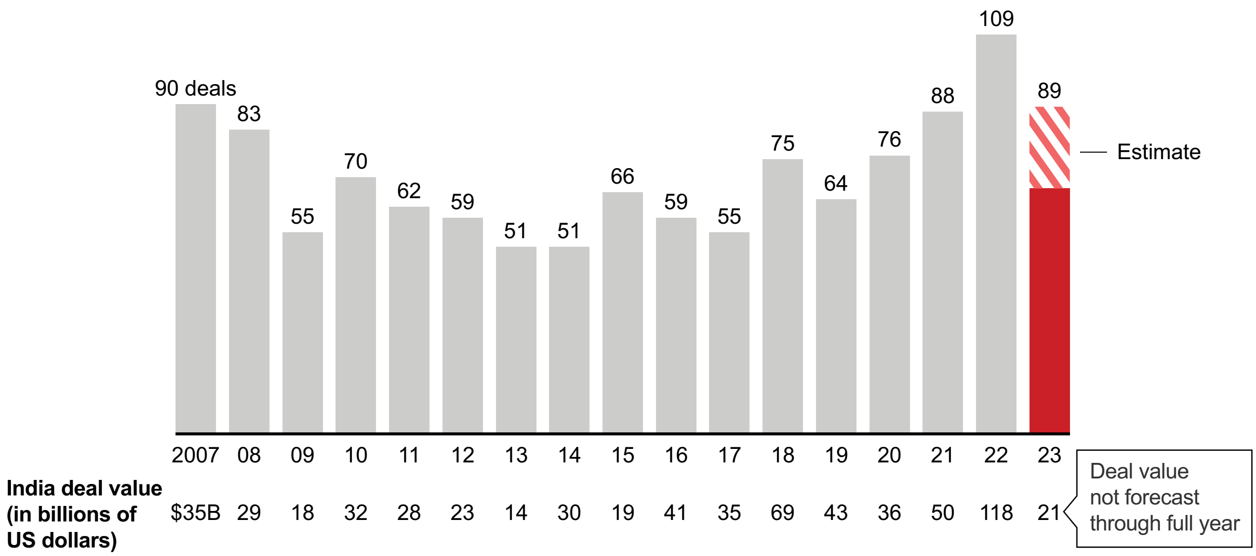
- After a record 2022, the M&A market in India maintained its long-term momentum in 2023.
- Midmarket acquirers were active, along with conglomerate M&A, Engine 2 acquisitions, and balance sheet restructuring.
- Market sentiment is bullish, with most dealmakers expecting a continuation or an improvement during 2024.
- Buyers are engaging in more sophisticated pre-deal diligence and more detailed post-deal planning.

While much of the globe's developed economies are in the doldrums, fast-growing India continues to speed ahead, with its annual growth forecast at 6% to 7% vs. 2% or less for developed markets.

This is reflected in India's M&A activity. While deals slowed down following a boom year in 2022, activity in 2023 remained robust, with volume estimated to be above levels seen over the past 10 years, excluding 2022 *(see Figure 1)*. An increase in the relative share of deals in sectors with a structural growth outlook and favorable policies toward renewable energy, infrastructure, logistics, and manufacturing accounted for one in every three deals over the past 18 months. Healthcare also emerged stronger, with deal volumes growing consistently over the past five years, the result of quality assets coming to market and a positive sector outlook.

Figure 1: India's deal count has maintained momentum in 2023, even after a record year of activity in 2022

India deal count (deals greater than $75 million)



Notes: 2023 deal count forecast to full year using first-quarter through third-quarter data; 2023 deal value includes first-quarter through third-quarter data only
Sources: Dealogic; S&P Capital IQ

More than 80% of respondents to our annual M&A Practitioners' Outlook Survey from India expect to close a similar number of deals or more in 2024. They also expect the availability of attractive assets to increase. M&A practitioners in India are not stymied by many of the headwinds that stall deals in other markets—they're less concerned about cost of capital, for example.

The steady activity and increased appetite for M&A means more competition for deals and sustained valuation across sectors. But are the midmarket and conglomerate buyers that make up an increasing share of M&A activity in India up to the task of winning the deals that will help them scale their businesses or find new sources of growth amid intensified competition?

Deals by midmarket acquirers (up to $1 billion in revenue) accounted for almost 50% of India's M&A activity. Scale M&A helps these companies supplement organic growth to build industry leadership positions over time. For example, mattress maker Sheela Foam announced its move to acquire rival Kurlon, and Ipca Laboratories made a bid for a controlling stake in pharmaceutical peer Unichem.

Torrent Pharmaceuticals illustrates how this strategy can play out over years. It completed a series of acquisitions that have grown in size and ambition, starting with Elder in 2013, followed by Unichem's domestic business in 2017, and most recently the $245 million deal for Curatio. The acquired brands have helped Torrent bolster its branded generics portfolio as well as build a high-value consumer health portfolio. Today, Torrent is one of the leading pharma companies in India, with demonstrated appetite for more M&A.

Meanwhile, conglomerates are actively pursuing Engine 2 opportunities to create new lines of growth. For example, Reliance Retail continued its long-running acquisition drive in 2023, building omnichannel retail scale with its purchases of Raskik, V Retail, and Ed-a-Mamma. Aditya Birla Group's acquisitive house of brands business, TMRW, made its ninth acquisition in 2023 with menswear brand TIGC, adding to its eight digital-first lifestyle brands already acquired. Industry leaders are also branching out into new growth areas. For example, PI Industries, a leading agrisciences company, forayed into pharma with two global acquisitions.

Other large companies reshaped portfolios and strengthened balance sheets via divestitures and spin-offs. Noncore disposals included deals such as SpiceJet hiving off SpiceXpress, its cargo and logistics business, and Dalmia Cement offloading its refractory business via a share-swap agreement to focus on cement production in late 2022. Raymond Consumer Care has transformed its portfolio by divesting its fast-moving consumer goods business. First, it sold its leading brands in deodorants and sexual wellness categories to Godrej Consumer Products; then, it de-merged its lifestyle business to create a separate listed entity.

Deep diligence showed one acquirer that a target's early advantage in product design and supplier relationships was not sustainable.

As midmarket and conglomerate buyers prepare for increased competition, they need to more rigorously assess their diligence capabilities and their potential for post-deal value creation. High-quality due diligence is always a critical factor that contributes to deals outperforming expectations. With more competition in the mix, the surest way to succeed is to come armed with proprietary insights from diligence that are deeper and more focused than that of competitors.

Midmarket acquirers building out scale positions seek to amplify top-line growth and profitability. Therefore, due diligence should investigate the target's customer positioning and operational performance for sources of revenue and cost synergies. Conglomerates contemplating an Engine 2 platform acquisition will have a broader diligence agenda. They need to test not only the underlying commercial dynamics but also identify the critical talent and capabilities unique to the assets and how those will best create value under new ownership. They might test potential new value propositions with customers via primary research or use third-party data to get an outside-in view on the target's talent and culture.

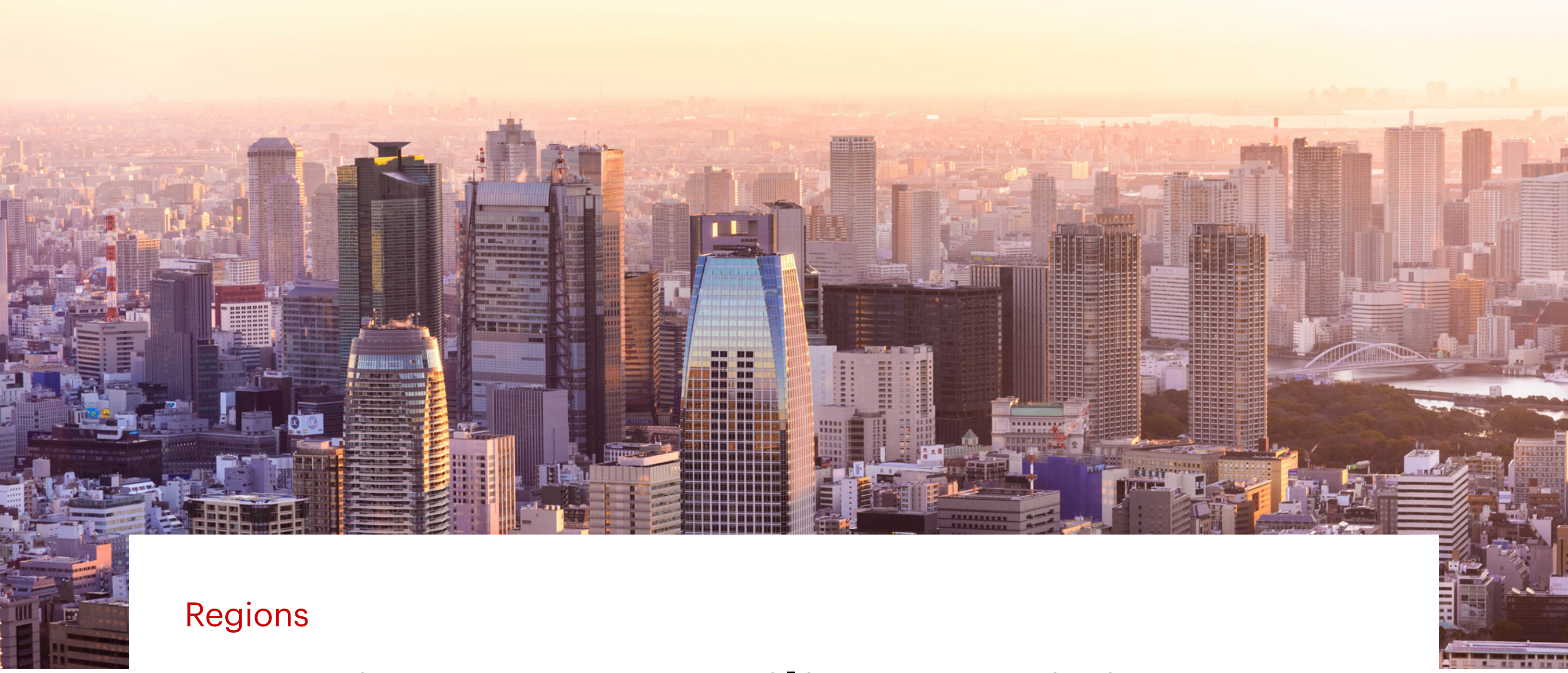
A leading life sciences company did extensive primary research with consumers, doctors, and chemists both in the field and by analyzing online consumer reviews to assess the full potential value for the target's brands. The research uncovered an unanticipated opportunity to accelerate the growth of select brands in the portfolio. That opportunity became part of the deal thesis, and it has resulted in additional value creation post acquisition.

In another example, an acquirer evaluating a target in the wearables ecosystem decided to dig deeper into the target's supply chain, which was a key to the potential acquisition's market leadership. While conducting interviews with suppliers and market participants, it was discovered that an early advantage that the target had in product design and supplier relationships was not sustainable.

As more assets become available and competition heats up in India, disciplined diligence can provide the edge to win the deal, creating value for midmarket buyers and conglomerates alike.

As always, a great diligence also plans for successful integration. A midmarket company doing a scale deal may need to balance quick operational integration with longer-term initiatives to support revenue growth. For example, when a leading Indian consumer products company acquired a global competitor's India business, it moved quickly to begin integrating non-customer–facing functions, but it intentionally kept the two sales teams separate for six months to ensure that there was no frontline disruption during a peak season. In deals that are focused on capabilities, a different approach may be required—maintaining an acquisition as a standalone business run by its founders, for example.

As more assets become available and competition heats up in India, disciplined diligence can provide the edge to win the deal, creating value for midmarket buyers and conglomerates alike.



Regions

M&A in Japan: Resilient Activity—but Now It's Time for More

A push to transform conglomerates, a record level of private equity deals, and low interest rates protected Japan's M&A market in 2023.

By Takashi Ohara

At a Glance

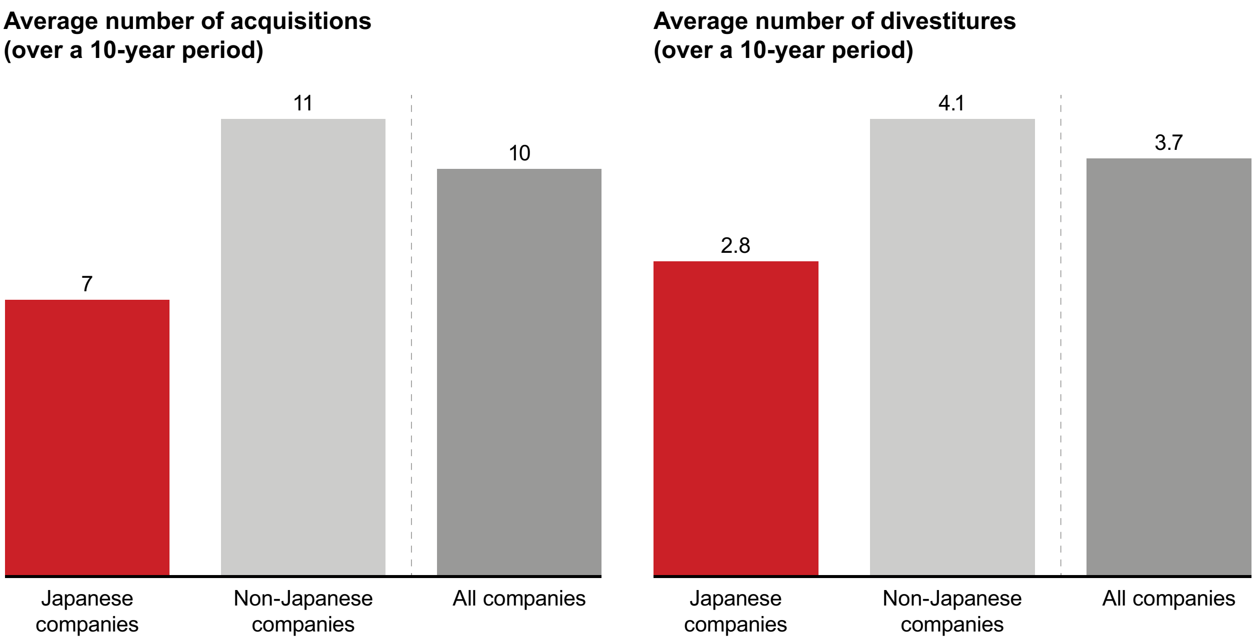
- Global M&A activity declined, but Japan's deal value increased by 23% year over year, delivering roughly $123 billion in 2023.
- Motivation for corporate M&A included regulatory and investor pressure to improve company valuations.
- Private equity deals, which play a critical role in the country's M&A ecosystem, reached historic levels.
- Companies missing out on the full value of M&A can learn from winners that have benefited from their deal experience.

While the rest of the world played catch-up, Japan experienced significant growth as companies addressed regulatory and investor pressure to do more deals in 2023. A total of $123 billion in corporate M&A deal value was amassed in 2023, up 23% vs. the prior year. A record level of acquisitions was also made by private equity investors in 2023—more than anywhere else in Asia. But can Japanese companies maintain enough activity to build the M&A muscle that will enable them to achieve the same level of total shareholder returns (TSRs) that companies in other regions achieve through M&A?

Japan's economy is uniquely well positioned for growth in M&A. Low interest rates make deals relatively less expensive than elsewhere in the world. Valuations, on the whole, are low, too, partly because of conglomerates' general reluctance to sell noncore assets. On top of that, companies are sitting on substantial levels of cash—to the point at which the government and investors are both applying pressure to do deals. The Tokyo Stock Exchange set a threshold for all companies to improve their price-to-book ratio to a multiple of at least one, bringing the issue of M&A to the top of corporate leaders' agendas. And in the case of Toshiba, 2023 was the year that a deal led by the buyout fund Japan Industrial Partners finally paved the way for the embattled industrial conglomerate to go private after years of activist shareholders demanding a sale.

These factors may have buoyed M&A in Japan this year, with deals such as Nippon Steel's December bid to buy US Steel for $15 billion. But it's clear that companies need to do more to streamline portfolios and adapt to meet the pace of transformation across industries. Some have proven they are up to the challenge—for example, Hitachi has sold off nearly $20 billion worth of businesses over the past five years (including more than $1.8 billion in 2023 alone). Still, despite the steady level of overall deal value, most Japanese companies are less active in M&A when compared with their counterparts in other regions *(see Figure 1)*. They can learn from a consistent finding in our decades-long research on M&A performance—namely, the more deals a company does, the better they will get at doing them.

Figure 1: Japanese companies are less active in both acquisitions and divestitures



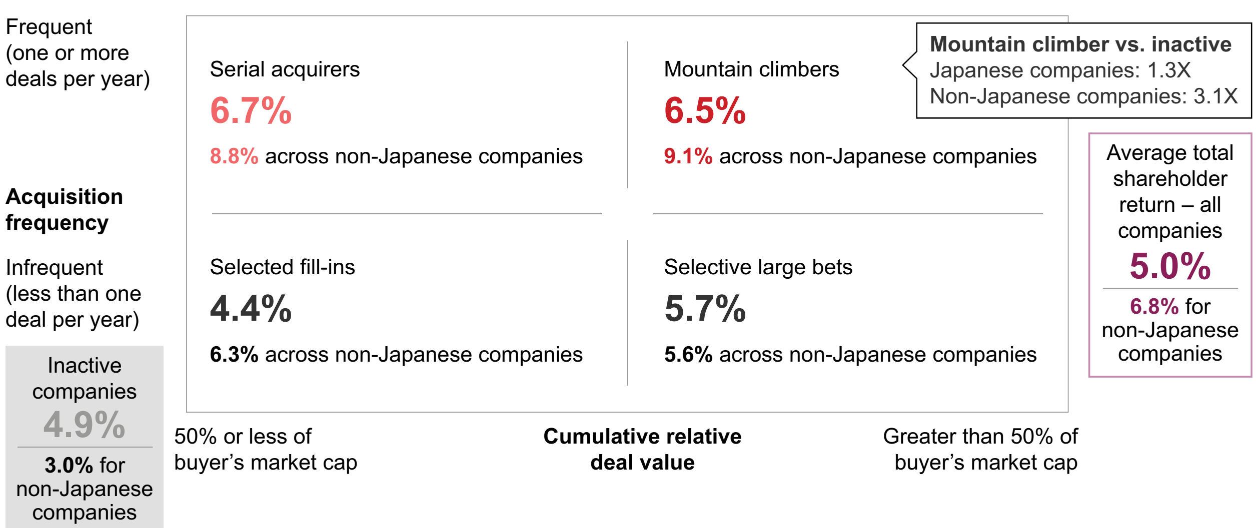
Sources: Dealogic; Bain M&A database; SPS

Bain studies of M&A's contribution to TSRs since 2004 show that frequent acquirers gain a performance advantage over infrequent or inactive acquirers, reflecting the increasing sophistication of their M&A capabilities over time. Frequent acquirers deploy a repeatable model across the full M&A process—that is, strategy, screening, diligence, and integration—to maximize value creation, but because Japanese companies have been both less active and less mature in their M&A capabilities than their global peers, the TSR benefits are muted as well. Even the most active Japanese companies—we call them "mountain climbers"—are not yet achieving the advantage of frequent and material acquirers in other regions. For example, mountain climbers in Japan yielded an average TSR 1.3 times the TSR of inactive Japanese companies over the years 2012 to 2022. By comparison, non-Japanese mountain climbers saw returns that were on average 3.1 times that of inactive companies *(see Figure 2)*. It's a situation that will change as Japanese acquirers begin to advance along their journey of building M&A muscle.

Some companies are setting the pace for Japan's ascension in the M&A world. Sony has long exemplified both the benefits of frequent M&A and the capabilities needed to do it well. M&A has been critical in the company's strategy to become one of the largest game publishers in the world. Sony set a budget for acquisitions as part of its publicly announced two-year spending plans, and the company has a clear vision for how M&A will help achieve defined strategic goals and add value post acquisition. Acquisitions across game development companies and first-party studios,

Figure 2: Japanese frequent acquirers deliver higher total shareholder returns, but the lift is lower than in other countries

Annual total shareholder returns
(compound annual growth rate 2012–2022)



Notes: N=698 companies; average total shareholder return is for entire universe; cumulative relative deal value is the sum of relative deal size (deal value divided by market capitalization three months prior to announcement) across all deals made between 2012 and 2022
Sources: Dealogic; SPS; Bain M&A database 2023

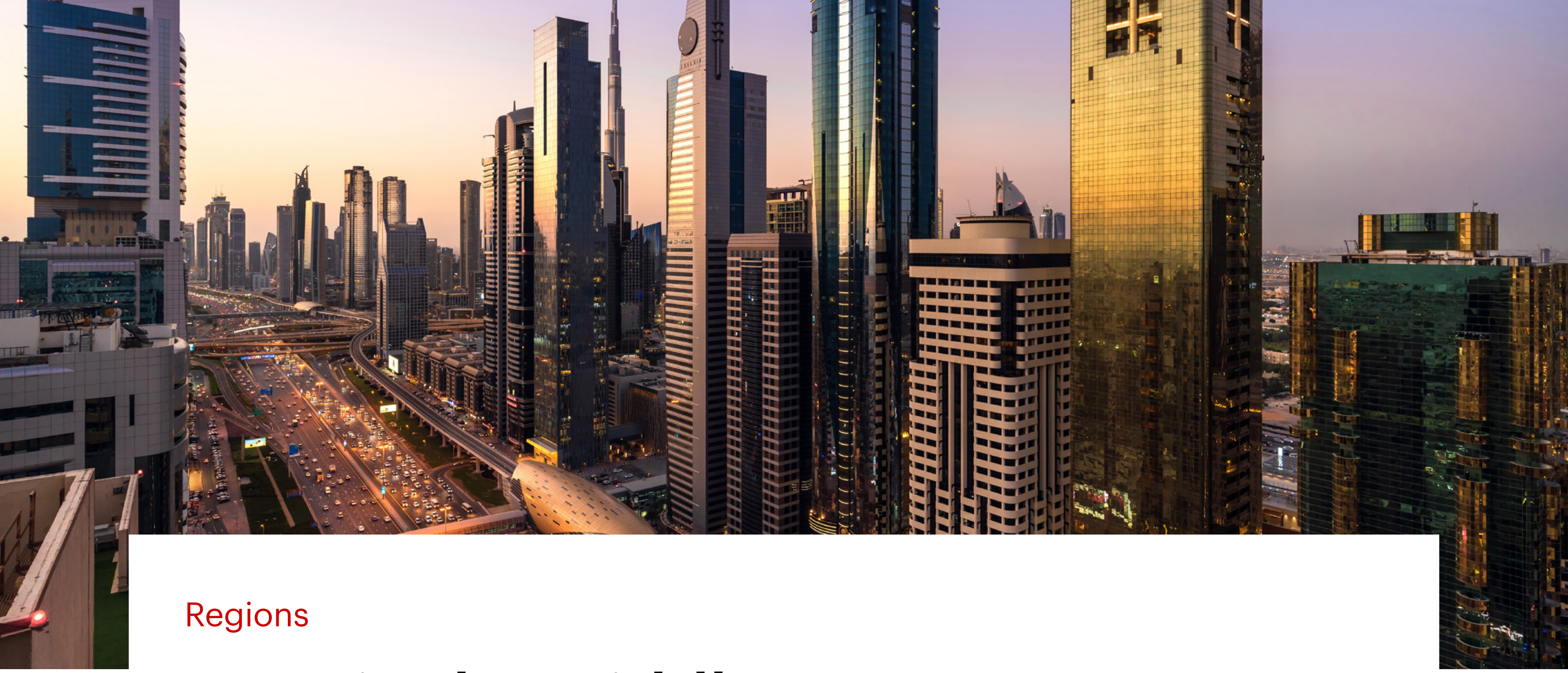
including the purchase of Firewalk Studios in 2023, have enabled a vertical integration strategy that, in combination with other frequent acquisitions across its portfolio of businesses, have fueled continuous growth. This is evidenced in public market perception as well. Sony's 10-year TSR hovers above 20%.

Companies hoping to replicate Sony's success must double down on three key activities.

- **Reexamine business portfolios, and align on M&A strategy.** Companies need to answer two critical questions: What noncore assets can be sold to fuel growth in other areas? And where can M&A be a catalyst for transformation, meet new consumer needs, or otherwise help achieve strategic goals?

- **Focus on cultural aspects of integration.** Particularly in cross-border acquisitions, cultural aspects are a critical influence on value creation. Japanese companies historically have been either too hands-off or too active in pushing their own culture. A cross-pollination approach to bring strengths from each side is essential.

- **Create a feedback cycle.** Companies tend not to look back and evaluate past failures—for instance, a deal that was priced too highly or one in which there was a particularly slow post-merger integration. There's often hesitation because it could lead to criticism of the deal team or executives who pursued the deal. But senior leadership should view post-deal assessment as an important management agenda item that will identify key learnings for future deals.



Regions

M&A in the Middle East: From Green Energy to Asian Expansion to Football

Sovereign wealth funds are defining an economy beyond oil.

By Tom De Waele, Grégory Garnier, Riccardo Molinari, and Elif Koc

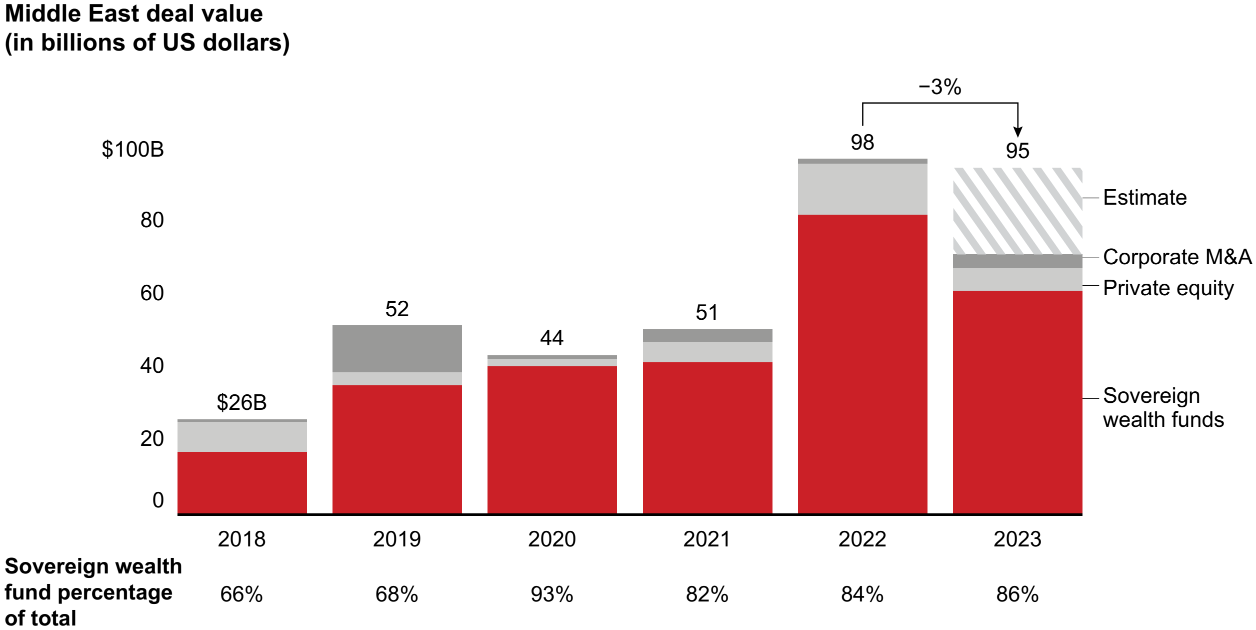
At a Glance

- Combined, sovereign wealth funds (SWFs) represent 86% of deal value in the Gulf Cooperation Council, with investments falling into five distinct categories.
- Among the biggest new moves of 2023 and beyond are investments in Asian companies that bring manufacturing and innovation back to the Middle East.
- The value of SWF deals with Asia rose nearly 60% in the first three quarters of 2023.
- The region's SWFs also are aggressively working to decarbonize existing portfolios while investing in green assets and technologies that support decarbonization.

Even as Gulf Cooperation Council (GCC) economies' growth slows because of lower oil production, the region's sovereign wealth funds (SWFs) sit on an abundance of capital that they are using to accelerate an economic transformation, including an aggressive diversification away from hydrocarbon and an ambitious shift toward deals in Asia, which jumped by nearly 60% in value in the first nine months of 2023.

Overall, deals dropped by around 3% in both volume and value, and SWFs (directly or through portfolio companies) saw the lion's share of activity in the region, representing 86% of deal value *(see Figure 1)*.

Figure 1: Middle East dealmaking has accelerated since 2018, with deal value projected to end the year roughly on par with 2022



Note: 2023 data forecast through full year using first-quarter through third-quarter data
Source: Dealogic

As we first pointed out last year, SWF's direct strategic investments fall into five distinct categories.

Deals to enter a new vertical at scale. These acquisitions are aimed at building local platforms in underdeveloped sectors. For example, that was the objective of Saudi Arabia's Public Investment Fund's (PIF's) move to consolidate the steel sector in Saudi Arabia by acquiring AlRajhi Steel and Hadeed. In a non-SWF deal, Abu Dhabi–based healthcare company M42 bought dialysis provider Diaverum.

Deals to strengthen ties with partners. These include acquisitions to support the development of regional economies in countries such as Egypt, Jordan, Oman, and Sudan as well as those to solidify relationships, especially in Asia. Emirati holding company Mubadala co-led a $2 billion investment in the Chinese online fashion company Shein. Qatar Investment Authority invested $1 billion in India's Reliance Retail Ventures, the retail arm of billionaire Mukesh Ambani's Reliance Industries.

Deals to invest in economies or sectors of the future. Consider PIF's majority ownership of Lucid Motors, a US-based maker of electric vehicles, for example, or Mubadala's investments in China's Hasten Biopharmaceutical as well as its joint venture with National Resilience, a technology-focused biomanufacturing company dedicated to broadening access to complex medicines. As part of the deal, Mubadala will establish a first-of-its-kind biopharma manufacturing facility in the region, based in the UAE.

Deals to increase soft power and visibility. Among the most publicized acquisitions for national branding was PIF's big move into football. Local teams Al Hilal, Al Ahli, Al Nassr, and Al Ittihad are all now owned by PIF, which also owns Newcastle United. Investments in the Saudi teams included attracting global stars. Portuguese forward Cristiano Ronaldo plays for Al Nassr, and his former Real Madrid teammate Karim Benzema joined Al Ittihad.

Deals that build regional champions via strategic investments through SWF portfolio companies. Leading domestic companies are buying to expand from the GCC into higher-population and higher-growth markets as well as turning to M&A to enhance capabilities. For example, PIF-owned Savvy Games acquired Scopely for $4.9 billion. The deal follows PIF's earlier investments in esports ESL and Faceit. Similarly, Abu Dhabi–based AD Ports Group completed its acquisition of Spain-headquartered logistics group Noatum.

As momentum for these five types of deals continued in 2023 at roughly the same pace as 2022, we noted two emerging trends to watch in 2024.

More deals are aimed at accelerating the energy transition. Middle Eastern countries have announced ambitious net-zero targets. So far, the UAE and Oman pledged to reach net-zero emissions by 2050, and Saudi Arabia, Bahrain, and Kuwait by 2060. Within the region, Saudi Arabia and the UAE have positioned themselves as leaders in providing clean energy globally with both expertise in hydrocarbons and a potential advantage in renewables and energy transitions.

This energy transition push is reflected in M&A activity. PIF and Mubadala have committed to net-zero targets by 2050. In addition to working to decarbonize existing portfolios, those funds are investing in green assets and in technologies that support decarbonization.

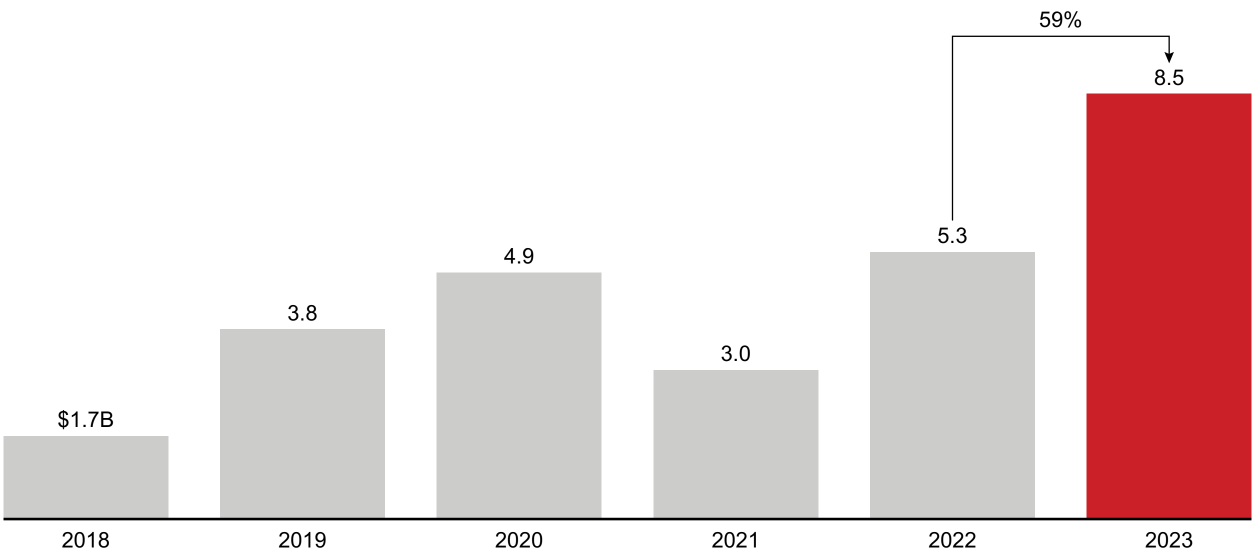
Setting the target and ambition is the first step for investment companies to decarbonize their portfolios, and it has broad implications for M&A practitioners' investment strategies and portfolio management. For example, net-zero commitments now will lead investment companies to consider emissions as part of the deal approval framework. It also now requires them to actively advocate for emissions reduction in portfolio companies and evaluate investments in enabling decarbonization technologies for portfolio companies.

The other big emerging trend: the Gulf's SWFs' increasing exposure to Asia. During the first three quarters of 2023, those funds invested a total of $8.5 billion in increasing their ties to Asia, nearly a 60% rise over 2022 *(see Figure 2)*. The activity was spread across Asia, including China, India, South Korea, Japan, and Singapore.

PIF and South Korean automaker Hyundai recently entered a joint venture valued at more than $500 million that will build a new manufacturing plant in Saudi Arabia. The localization of Hyundai's vehicles is aimed at accelerating the development of the country's automotive and mobility ecosystem and attracting further investments to the sector and the wider economy.

Figure 2: Middle East acquirers are increasingly targeting companies in Asia-Pacific, with 2023 being the highest year for deal value since 2018

Total deal value of Middle East deals with Asia-Pacific targets (in billions of US dollars)



Note: Includes first-quarter through third-quarter data for each year shown
Source: Dealogic

Overall, the investment thesis in Asia includes tightening ties with Asian countries, building supply chain resilience in strategic categories such as automotives and semiconductors, leveraging green energy investments, and a big shift to relocate the Asian companies' manufacturing, innovation, and commercial operations in the Middle East. It's a massive goal with equally sizable benefits for GCC economies.

Achieving those benefits requires substantial effort from the region's SWFs and governments to build an extensive talent base, to provide localization incentives, to design win-win deals with Asian partners, and to provide local supply chain ecosystems and infrastructures.

Methodology

State of the market, industry, and regional M&A data

Deal details and aggregate statistics (such as value, volume, and multiples) were sourced primarily from Dealogic's M&A database for this annual report. Data in most industry and regional articles includes the time period from January 1 to September 31, 2023. Forecasts for fourth quarter 2023 were conducted on a straight-line basis using first-quarter through third-quarter data unless an exception is noted. Full-year 2023 data was updated as of January 2024.

This report concentrates on strategic M&A, encompassing deals by corporate buyers (including sponsor exits) and private equity add-on acquisitions. Both types share fundamentally strategic objectives. Financial sponsors, special purpose acquisition companies, and venture capital fall under the nonstrategic category. Combined, these categories constitute Dealogic's total M&A market. All deal values represent either the disclosed value at the time of announcement (including debt for deals that have not closed) or the disclosed value at close for accurate assessment and representation of deal prices. The region and industry of each deal is classified according to the target's region and industry unless an exception is noted.

Scale vs. scope

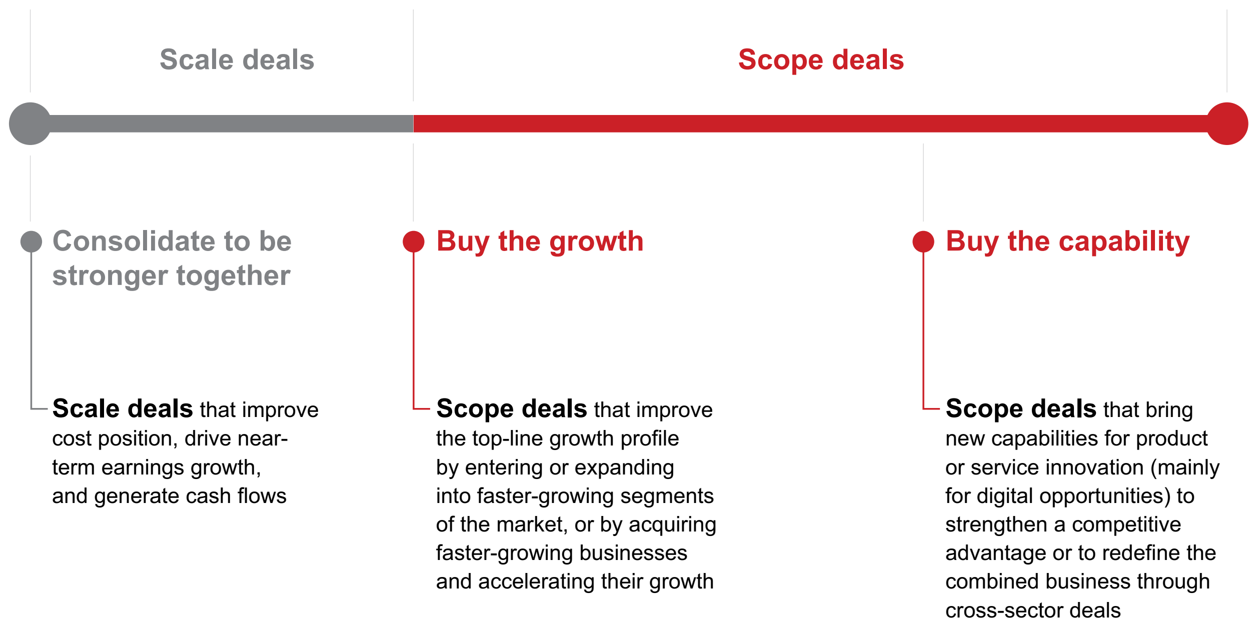
The M&A report signifies scale and scope deals in our chapters' analyses to discern trends. Assessing deals through these lenses offers crucial insights into M&A market theses and themes.

To understand the nature of M&A activity, we first identified the top strategic deals for each year. From the initial list of deals with values greater than $1 billion, as reported by Dealogic, we excluded nonstrategic deals. These include asset or property acquisitions, financial investments, internal reorganizations, and minority stake acquisitions. This resulted in a total of 2,218 deals for the period between first quarter 2015 and third quarter 2023.

We then classified the strategic deals into scale or scope deals based on our proprietary database criteria applied consistently across the years. The proprietary criteria use the stated strategic rationale by the acquirer at the time of announcement to identify the key elements of the deal thesis. Based on these elements, the deals were categorized as scale or scope deals.

Scale deals are intended to strengthen market leadership and lower cost position through benefits of scale, such as cost synergies. Scope deals are intended to accelerate top-line growth by entering or expanding into faster-growing market segments, or by bringing in new capabilities *(see Exhibit A)*.

Exhibit A: About the methodology



Source: Bain & Company

The M&A Practitioners' 2024 Outlook Survey

In partnership with the Gerson Lehrman Group, AlphaSights, and IncQuery, we conducted a survey of 306 M&A practitioners. The survey ran in October 2023 in the US, Canada, Brazil, UK, Germany, France, Japan, India, and Australia. Survey participants held senior executive roles with titles such as vice president, senior vice president/executive vice president, director, C-suite, or owner at companies with greater than $100 million in annual revenue that closed an M&A deal within the past three years, and they were responsible for M&A decision-making processes at their company.

Regulation database of major deals

Bain has created a proprietary database of major deals that received scrutiny by the US Federal Trade Commission (FTC), US Department of Justice (DOJ), UK Competition and Markets Authority, or European Commission. For the purposes of this report, the database includes 42 deals announced between 2022 and 2023. Scrutiny is defined as an official second request, investigation, or litigation by a regulatory body. Deal status was last updated on December 18, 2023. This information allowed us to analyze the effects of regulatory challenges on the M&A deal timeline. For some analysis, deals announced during the prior six-month period were excluded to account for pending timelines.

Our database also includes merger enforcement actions from the FTC and DOJ. This includes 204 merger cases in which a complaint was filed in federal court or the FTC's internal administrative court from January 1, 2015, through December 15, 2023. This allowed us to analyze historic changes in challenge timelines for scrutinized US deals. Deal status was last updated on December 15, 2023, with this date used as the resolution date for any deals pending at the time of analysis.

Key contacts in Bain's Global M&A and Divestitures practice

Global
Les Baird (*les.baird@bain.com*)

Americas
Colleen von Eckartsberg (*colleen.voneckartsberg@bain.com*)

Europe, Middle East, and Africa
Peter Horsley (*peter.horsley@bain.com*)

Asia-Pacific
Harshveer Singh (*harshveer.singh@bain.com*)

Reporters and news media
Please direct requests to
Katie Ware
katie.ware@bain.com
Tel: +1 646 562 8107

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