
# Merger monthly

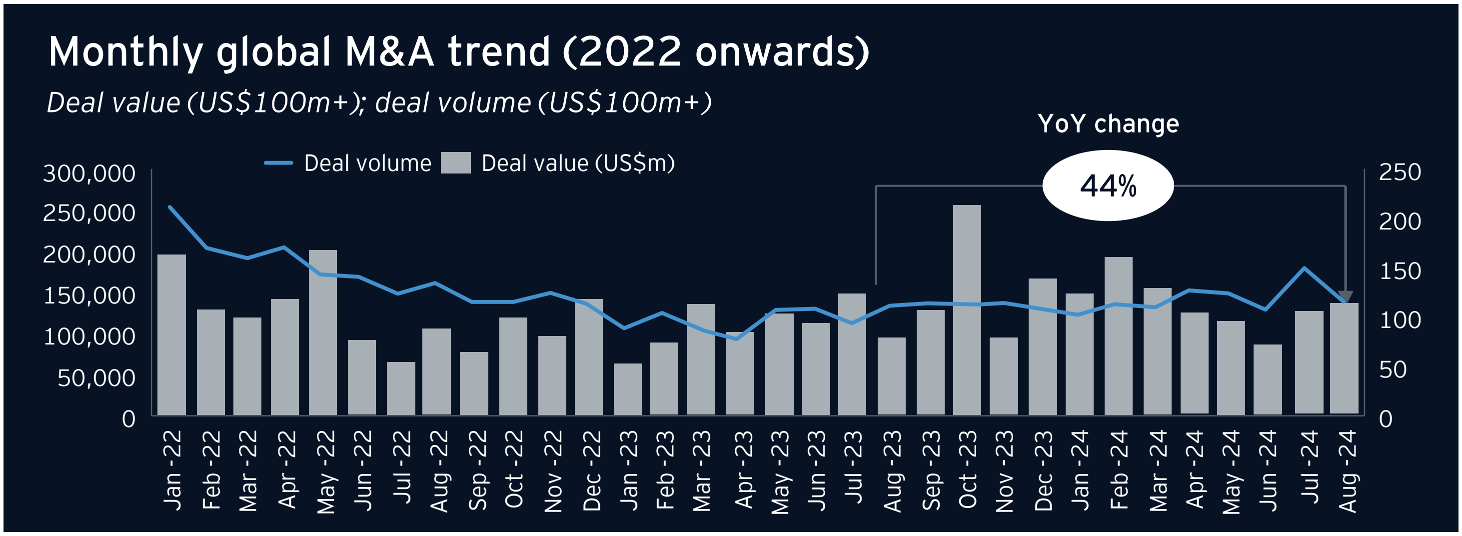
## September 2024

## Dealmakers navigate economic uncertainty amid a softening US labor market

Labor market softening in the US is evident as job openings per unemployed have dropped to 1.07 in July 2024, the lowest since March 2021, indicating a weakening labor market compared with the tight conditions of early 2022 when the ratio was above 2.0. Despite the headwinds, M&A activity should remain resilient, mainly due to large deals driven by well-capitalized firms looking to strengthen their market positions and capitalize on favorable acquisition terms. Dealmakers must be prudent to identify opportunities that are strategic and offer long-term value creation. As the public markets react to recessionary fears, the environment may present attractive valuations for businesses seeking consolidation or strategic partnerships.

## US M&A activity remains resilient in August, driven by surge in deal value for large deals

The US recorded US$124b in deal value (US$100m+) deals. This is a 42% increase compared to June 2024. The US deal volume was 141 deals (US$100m+), an increase of 33% MoM and 51% YoY as fundamental deal drivers remain intact.




Source: EY Insights analysis and Dealogic

## Capital market shifts and specific sector dynamics influence M&A

The M&A landscape is being shaped by several key trends, including the evolving dynamics of capital markets where interest rates and liquidity conditions play a crucial role in influencing dealmaking appetite and valuations. Capital markets traditionally rely on established valuations and patterns to guide investment decisions within a complex environment. However, the current market scenario challenges these norms, making predictions and valuations difficult. Additionally, sector-specific opportunities in technology, energy and life sciences are driving deal activity, buoyed by trends in digital transformation, sustainability and health care innovation. Furthermore, geopolitical tensions and shifts in economic policies present challenges and opportunities, affecting cross-border transactions and shaping investment strategies. Together, these factors create a complex environment for M&A activity, demanding strategic agility and insight from participants.

## Private equity (PE) investments continue to increase driven by anticipation of rate cuts, stronger financing markets and moderating valuations

PE investments in the US have increased, driven by anticipation of rate cuts, stronger financing markets and moderating valuations. However, the exit environment remains challenging, with PE exits in 2Q24 declining compared with 1Q24. This decline is more rooted in supply-side issues, as general partnerships focus on optimizing portfolio company performance to present compelling equity stories for potential buyers.

### Key deal drivers:

- Artificial intelligence (AI) investment and digital transformation
- Energy transition and sustainability efforts
- Portfolio optimization and strategic realignment
- Geopolitical factors and regulatory changes

### US sector breakdown for US$100m+ deals – year to date

| Sector | Volume | Volume change | Value | Value change |
|---|---|---|---|---|
| Technology | 256 | Up 43% YoY | US$258b | Up 65% YoY |
| Consumer products and retail | 37 | Up 19% YoY | US$68b | Down 33% YoY |
| Oil & Gas | 73 | Up 18% YoY | US$152b | Up 39% YoY |

## Additional risks to dealmaking in 2024 include:

- Geopolitical tensions and the upcoming elections
- Potential policy missteps by the Federal Reserve that could derail broader and relatively robust US growth
- An unseen systemic shock — in financial plumbing, such as the repo market; in banks generally; and in the commercial real estate market

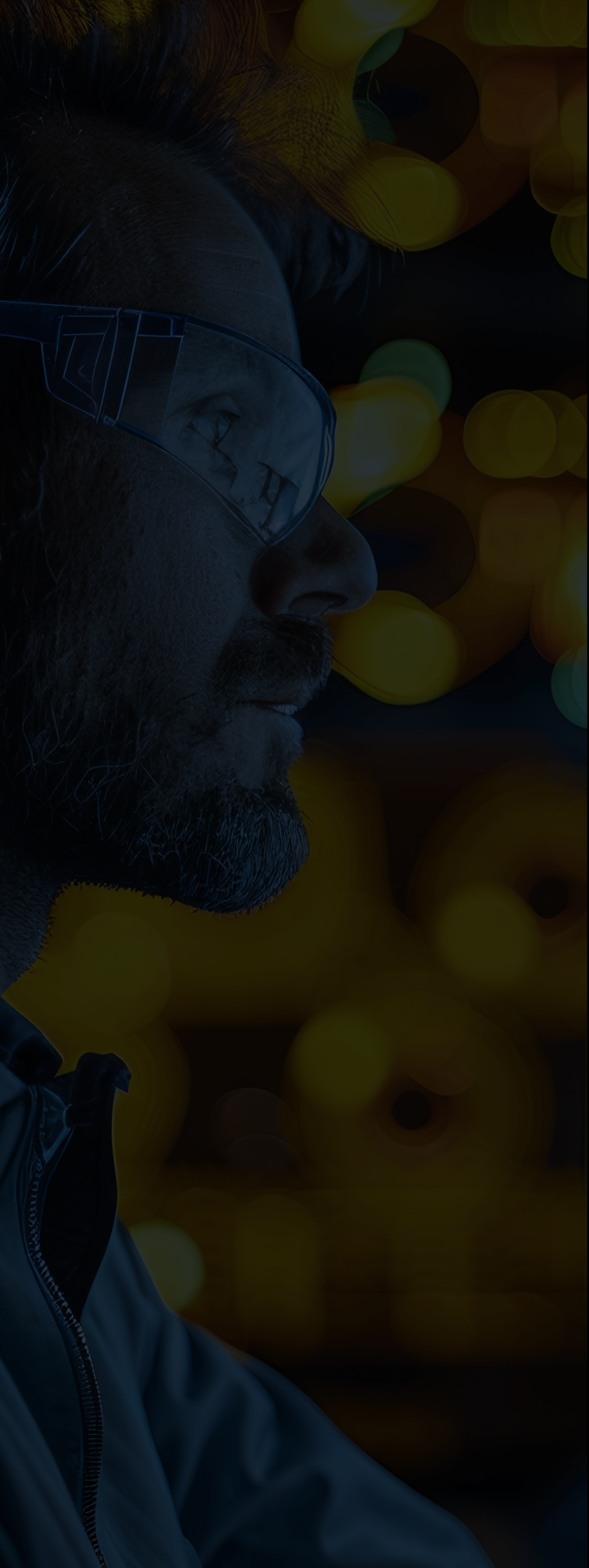
## Looking ahead to 2H24

- Momentum matters: Strong enthusiasm for larger deals can further provide a boost to dealmaking confidence.
- The US will benefit most from the return of PE acquirers, which we expect to see as 2024 progresses, as it will be from the return of a stronger flow of tech-related M&A.
- The US has a relatively stronger economic growth forecast for 2024 and beyond compared with other areas of the world.

## Fundamental drivers of M&A persist through an uncertain environment

Dealmakers are navigating a complex landscape, with economic and geopolitical uncertainties posing downside risks.

A softening US labor market, credit tightening, student debt repayments, high leverage in some sectors and global economic weakness are among the concerns. Geopolitical tensions also threaten economic activity and financial market stability. Despite these challenges, the US M&A landscape shows promise, particularly because of the resilience of the American economy. This suggests a positive medium- to long-term outlook, with the potential for a strong rebound in M&A activity later this year.



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