

# December 2021 global M&A review and forecast

December 2021

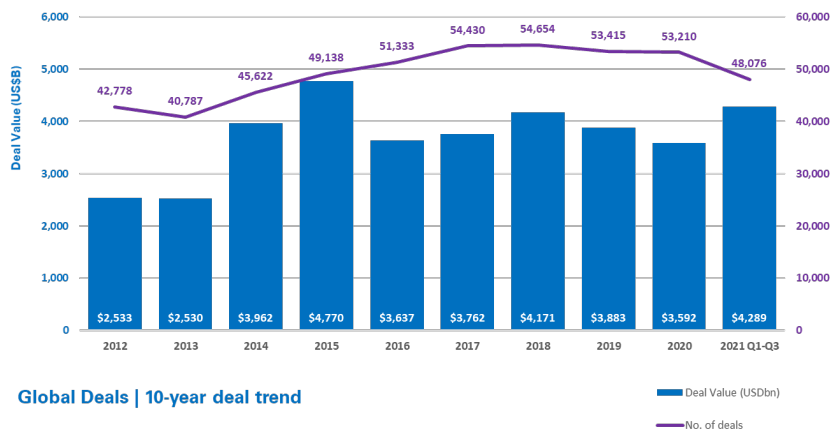
By Leif Zierz, Global Head of Deal Advisory, KPMG International  
(4 min read)

## Key takeaways:

- *The long-term factors driving historic levels of global M&A remain firmly in place. While there is optimism that 2022 will see similar levels, there are some factors to consider.*

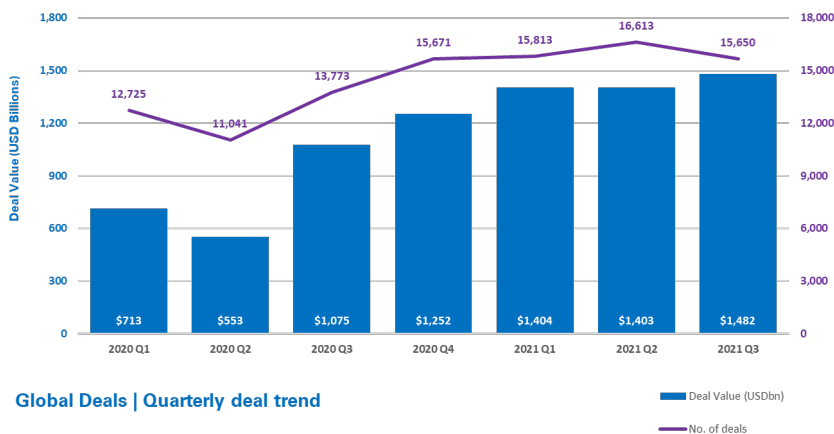
By about every measure, deals are at a historic high right now globally. Superlatives abound. The question that remains is how sustainable is it all? The last five consecutive quarters have seen more than USD1 trillion in deal value. Looking back, the total deal value for the first three quarter of 2021 have already exceeded the yearly totals for 2011 to 2020, with the exception of 2015.

Looking ahead, KPMG International's research shows a potential for global deals to hit USD6 trillion this year,<sup>1</sup> if all goes as projected. The story is similar in India, where total deal value for 2021 Q1 to Q3 already exceeds all of 2020.



<sup>1</sup> Global deal making could hit record this year, CNBC, 15 October 2021

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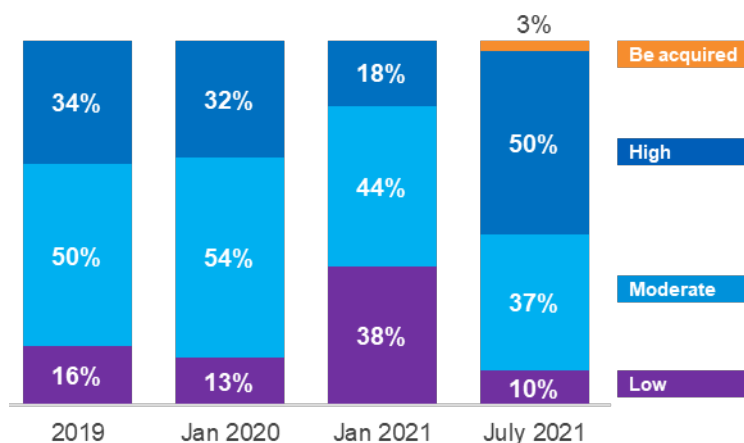
Source: Refinitiv, KPMG International analysis, as of November 25, 2021

To determine if this deal activity will continue, we first looked into the broader underlying trends that have pushed activity to this level in the first place. Then, we reviewed factors and indicators that help us understand what could impact the level of deal activity in 2022. We begin by reviewing the sentiment of Global CEO's.

### CEO perspectives

[KPMG International's latest Global CEO Outlook](#) reports a vast majority (87 per cent) of CEOs expressing a moderate or high appetite for M&A over the next 3 years. Those expressing a high appetite increased significantly to 50 per cent, the highest we've seen since we started this survey.<sup>2</sup> Similarly, those expressing a low interest in deals dropped to 10 per cent. This shift in appetite has us wondering if the start of the emergence from the pandemic acted as a wake-up call for business leaders?

Over the next 3 years, how would you describe your organization's M&A appetite?



### Did the emergence from pandemic act as a wake-up call?

Total of moderate and high has returned to pre-pandemic norm (84-87 per cent), however those indicating a high appetite has exploded, accounting for half of all CEOs surveyed

- M&A appetite was 10 per cent high in companies with increased or decreased revenue, vs those with flat revenue reported. (2021 vs 2020 revenue)
- High earnings outlook has a measurable impact on their appetite for M&A

Source: [KPMG 2021 CEO Outlook - KPMG Global \(home.kpmg\)](#)

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## Transformations drive deals

As we look back before the pandemic to where we are today, the most consistent trend is the need for digital and business transformation. If anything, this need is only escalating and accelerating with the twin threats of an abating pandemic and ever-looming environmental concerns. The scale of change can only be described as generational, which impacts the timeline of investments.

Businesses have been focussed on transforming their operations over the past several years, and the pandemic has only increased the speed and scale of the change. CEOs surveyed see deals as a key way to achieve their goals in an accelerated fashion.

69% | 69% of senior executives identified inorganic methods such as JVs, M&A and strategic alliances as their organization's main post-pandemic growth strategy.

50% | 50% of CEOs said they are likely to undertake a major acquisition that will transform their organizations.

Source: [KPMG 2021 CEO Outlook - KPMG Global \(home.kpmg\)](https://home.kpmg.com/au/issuesandinsights/articlespublications/2021/01/kpmg-2021-ceo-outlook)

Digitisation and automation of the workforce were in place pre-pandemic, but it is now a large driver of deals activity. During the early stages of the pandemic, almost every business faced significant and unprecedented shocks, and most companies responded by accelerating the deployment of digital — in some cases, accelerating years' worth of digital transformation worked in a matter of months. Social distancing has boosted demand for automation, robotics, direct-to-consumer offerings and remote-working technologies.

What's more, [the environmental, social, governance \(ESG\) agenda](#) is a topic that started in 2019 in the top five of CEO issues — but it's now very top of mind. This may generate a lot of deal activity as organisations look at their ecological footprint and consider purchasing, rationalising or divesting assets. Moving forward, investors are likely to see ESG as a critical element to build a more sustainable business that can better adapt to potential market shifts.

### What factor and indicators could impact the deal market?

While the long-term view seems clear (more transformations, more deals) and calls for a heightened volume of deal-making, the short-term outlook is less clear.

According to our analysis of the CEO Outlook, rapid reversions of M&A appetite are definitely possible in the short-term. Looking back to April 2020, I don't think anyone could have predicted April 2021. So, we cannot be sure what April 2022 will bring. Here are some factors we will continue to assess.

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## 1. Economic trends

What could moderate this record-breaking pace? The usual suspects: interest rates, supply chain, inflation, growth concerns. Furthermore, not all recoveries are created equal. Our Chief Economist at KPMG in the U.S., Constance Hunter, believes a [K-shaped economic recovery is forming](#), where different parts of the economy are recovering from the pandemic at different rates and magnitudes. Already, there are signs of this across the economy — with a strong bifurcation between different industries, geographies and households.

This split is expected to drive deal strategies going forward, as those in stronger positions may be able to accumulate the necessary assets and capital to purchase those in more distressed positions. Less desirable assets could see distressed sales at lower valuations, particularly assets in sectors more adversely impacted by the pandemic or with business models that are no longer viable given the structural changes taking place.

With continued low interest rates and private equity firms' growing war chests, it appears that this year's strong deals market may continue. But there is another variable to the equation, as inflation is currently reaching record-breaking levels as well. The comeback of inflation and whether it is here to last is being heavily discussed among investors. It is reasoned that with inflation lasting, national banks will be forced to raise interest rates with M&A activity eventually cooling down. Yet, several arguments point into the opposite direction. Firstly, while the inflation impact varies across industries, it generally puts market-leading companies into a much better position to roll over higher prices to their customers, thus further accelerating consolidation and transformation of industries. Secondly, the impact of rising interest rates may not necessarily provide downward pressure, as expectations of rate hikes may accelerate as buyers move up plans to lock in lower rates. When we examine a similar period of rate increases between 2016 and 2019, we do not see M&A decreasing, rather, it increases in both deal volume and value over the same period.

## 2. The U.S. M&A engine

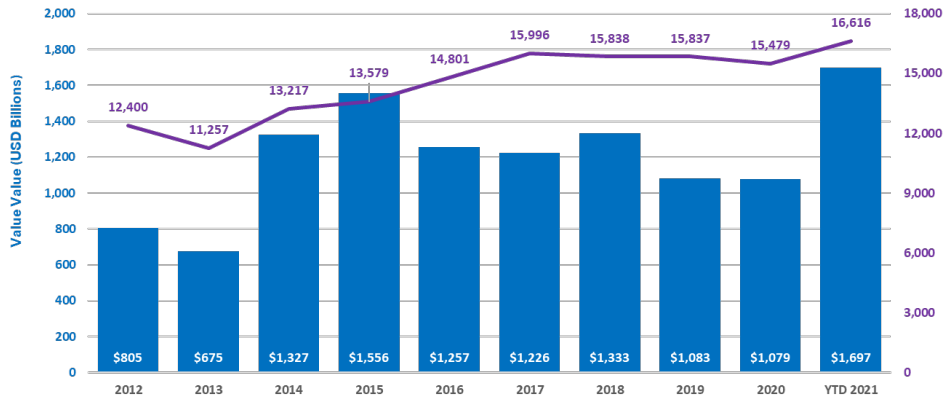
The U.S. is a massive driver of global deal activity. Half (50 per cent) of total global deal value had a U.S. buyer. If we just look at the 100 largest deals, this impact is even more pronounced – 70 per cent involved a U.S.-based company (either as a bidder, a target, or both). This has translated into U.S.'s involvement in a staggering 66 per cent of global deal value (USD2.8 trillion out of USD4.3 trillion!).

We see this influence in the global cross-border deal volume as well. In just the first three quarters, we are approximately USD350 million higher than full year totals from 2016 to 2020. Deal volumes in the same period (2021 Q1 to Q3) are only about 1,000 deals shy of yearly levels from 2017 to 2020. The U.S. currently accounts for 35 per cent of these deals (5,764 U.S. cross-border deals out of 16,616 total global cross-border deals).

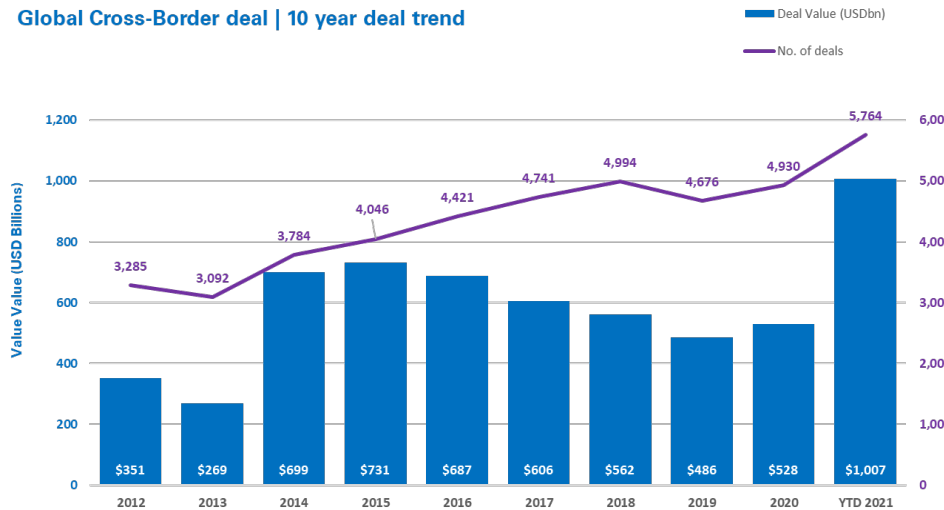
U.S. cross-border activity has been fairly consistent over the last 10 years, hovering around 31 per cent of all its M&A volumes, but looks to peak in 2021 with YTD currently at 34.42 per cent. Will the U.S. continue its longer-term trend and drive global cross-border deals higher?

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Global Cross-Border deal | 10 year deal trend



US Cross-Border deal | 10 year deal trend

Source: Refinitiv, KPMG analysis, as of November 25, 2021

### 3: Stock market performance and the deal market

As of this writing, both the stock market and the deal market are at historic highs. However, if we look at average deal value, it is quite a different story.

Since 2016, the global average deal value has hovered around USD168 million. While the average deal size of USD174.61 million in 2021 (Q1 to Q3) is somewhat higher than average, it is still well below the 2015 peak of USD 228 million. At the end of 2015, the Standard & Poor's (S&P) ended at 2,044 and U.S. GDP was 18.2 trillion.

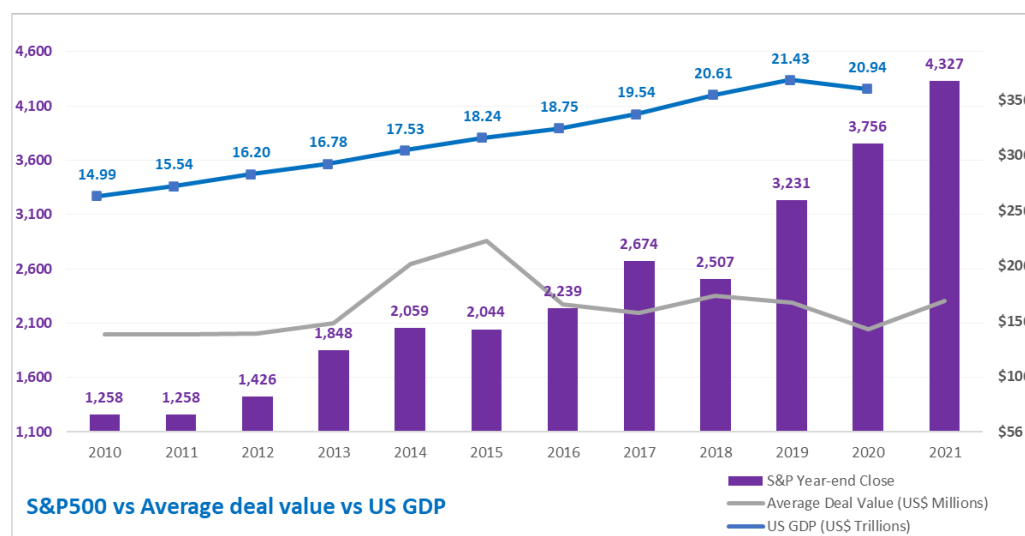
S&P has now more than doubled to 4,327 points (as of December 31, 2020) and the U.S. total GDP has grown by USD2.7 trillion. India's S&P BSE Sensex and NSE Nifty 50 also seen tremendous growth, with

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both indices recording 30 per cent YoY growth from the previous year. Furthermore, the India's GDP is estimated to be one of the fastest growing at a rate of 8.5 per cent estimated by IMF for 2022.

Within this context, there appears to be some room for growth in increase deal value.



Source: Refinitiv, World Bank, KPMG International analysis, as of November 25, 2021

Furthermore, we have been leveraging our advanced analytic techniques to examine the relationship between deal activity and the major market index (e.g., S&P 500). Our prior analysis has observed, in general, greater levels of deal activity when major market index closing prices are increasing, which is currently the case.

Given that relationship between the stock indices and deal markets, we have been developing a predictive model to look at the directionality of the stock market index. Our initial modelling indicates the market is not at a turning point, instead, our supporting broader thesis and market evidence indicates high deal numbers could continue.

### Confidence in value creation required

Creating value from a deal is challenging in today's environment, and many factors have disrupted the traditional M&A playbook. Business owners may need to consider their value creation strategies as dealmakers take a more proactive — and even more aggressive — approach to acquire the assets they want. They also need to have the necessary capabilities in place and make the right technology investments to move at the deal speed:

- **Assess value creation:** Value creation detects, quantifies and realises performance improvement in a business. Speed is of the essence as is the need to deliver risk and value-focused analysis with a sector-specific lens.
- **Stay confident in a competitive deal environment:** Buying into a highly competitive deal environment requires an equally high level of confidence in meeting investment objectives. With the

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days of financial engineering and high tax shields behind us, performance improvement becomes the key differential.

- **Face sector-specific pricing challenges:** It's vital to understand the nuances of certain sectors to help businesses bridge the gap between price and value in order to compete for assets in hot markets. It's also important to understand where incremental value could be generated, but the critical insights required are often deeply hidden in sector signals and transaction-level data that they're often missed by current approaches to strategy and analysis.
- **Bring visibility to ESG:** Increasingly, investors, consumers and other stakeholders are evaluating performance through an ESG lens. Whether preparing to transform, buy or sell, ESG due diligence can help assess the value and the risk. Deal financing may be harder to find for ESG-unfriendly investments.

The transformation of industries is continuing at a rapid pace. The current pandemic was the accelerant to a process clearly underway pre-2020. At some point, we hope to look back at the pandemic in the rear-view mirror and see the crystallisation of environmental, social and governance concerns will likely be one of the lasting legacies of our time. Having a clear definition of value in this context, and how to secure it in the deal environment will continue to play a role in achieving these goals.

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<sup>1</sup> Source: Refinitiv, KPMG International analysis, 2021 YTD, as of November 25, 2021