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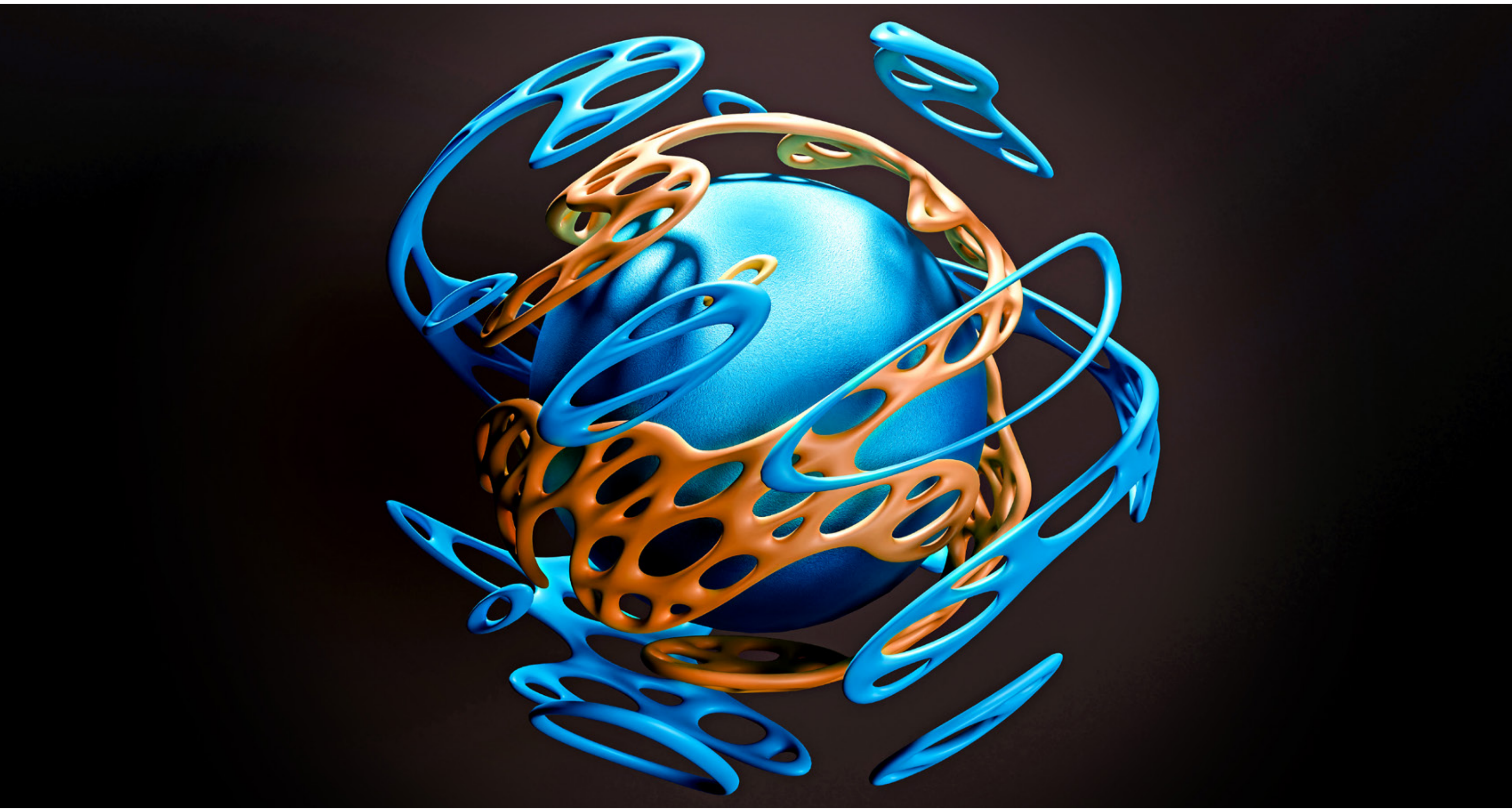
Global M&A market slows in 2022 but shows signs of strength

Americas are most active while technology/media/telecom dominates other sectors.

by Margaret Loeb



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After soaring to an all-time peak in 2021, the global M&A market has hit the pause button. Early 2022 saw the value of large deals (more than $25 million) fall 24 percent from a year earlier, on a 12 percent drop in deal volume.

But the 2022 numbers match healthy, prepandemic levels and are especially notable in a time of great uncertainty. Geopolitical instability, spiking inflation, supply chain issues, skittish capital markets, regulatory changes—all these factors, and more, are fueling uncertainty. And as Andy West, global coleader of McKinsey's M&A Practice, says, "Uncertainty always weighs on decision making, and M&A is a big decision for deal makers. So naturally we're seeing a bit of a slowdown."

According to the McKinsey M&A Practice review of the global M&A market, 2022 activity has declined, but only slightly. Deal makers in the Americas have been the most active traders, delivering almost half of worldwide deal value (48 percent, versus 52 percent for all of 2021). Europe, the Middle East, and Africa's share is up slightly (28 percent, versus 26 percent), as is Asia–Pacific's share (24 percent, versus 22 percent).

The heavy hitters of 2021 remain the dominant deal makers of 2022. The technology, media, and telecommunications sector (TMT) has outperformed other industries—accounting for 30 percent of total deal value (lagging its 32 percent in 2021 but nearly matching its 2020 performance of 31 percent). The next two largest sectors in M&A trail far behind—real estate at 13 percent and industrials at 11 percent.

Logic suggests that an uncertain market would encourage more small and fewer large deals. But 2022 has so far seen as many mega deals like the TMT acquisitions as 2021. Mega deals account for 28 percent of 2022 deal value versus 23 percent a year earlier.

Private equity (PE) firms are likewise outpacing their record-setting 2021 performance. Their activity in the first half of 2022 delivered 26 percent of deal value (up from 25 percent for all of last year), with no slowdown in sight. As Oliver Engert, senior partner and a leader of McKinsey's M&A Practice, notes, "PE invested over $2 trillion in 2021. Yet they still have trillions in dry powder left to spend, and that will be a really important contributor to the M&A market." That firepower may be influencing the 2022 rise in premiums to 41 percent, up from 35 percent for all of 2021.

While M&A activity has slowed from last year's torrid pace, Oliver finds a positive note in this change in

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tempo. “With a slightly slower market, you can take your time to really understand the drivers of the asset that you’re considering. You can cultivate the management team and the employees that you are about to embrace and create something that’s far better than merely a ‘transaction.’”

The slower pace also creates space to recharge, rethink, and renew. Many deal teams ended 2021 frazzled by the nonstop action. And many companies need to reflect on the impact of today’s uncertain market on their business, from their strategy to their supply chain, their balance sheet, their access to capital, and their portfolio, Andy says, adding, “In the context we’re in today, for most companies those things have changed. And the real risk is not recognizing it. So, my advice is to take a hard look at your strategy, understand what’s different today than it might have been a month, a quarter, or a year ago, and ask yourself, does that change either how I do M&A or where I’m going to focus my M&A strategy?”

Andy and Oliver remain bullish on the programmatic strategies that have weathered more than a decade of M&A cycles. They express confidence that these strategies will continue to outperform in 2022. But they also highlight the importance of active portfolio management and vehicles like joint ventures and alliances to cope with the uncertain market.

With these conditions, getting the fundamentals of deal execution right is more important than ever. “Value capture is really important in a market like this because we have to mitigate the headwinds that companies face: rising commodity prices, rising energy prices, increasing labor costs,” Oliver says. “As a result, we have to get far more specific, far more accurate, and probably go far deeper in value creation.” Capturing maximum value requires having the right organization design, operating model, talent, and culture.

Treating the slower pace of M&A activity as an opportunity to revisit and refresh the fundamentals should place deal makers in the best position in 2022 and beyond.

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