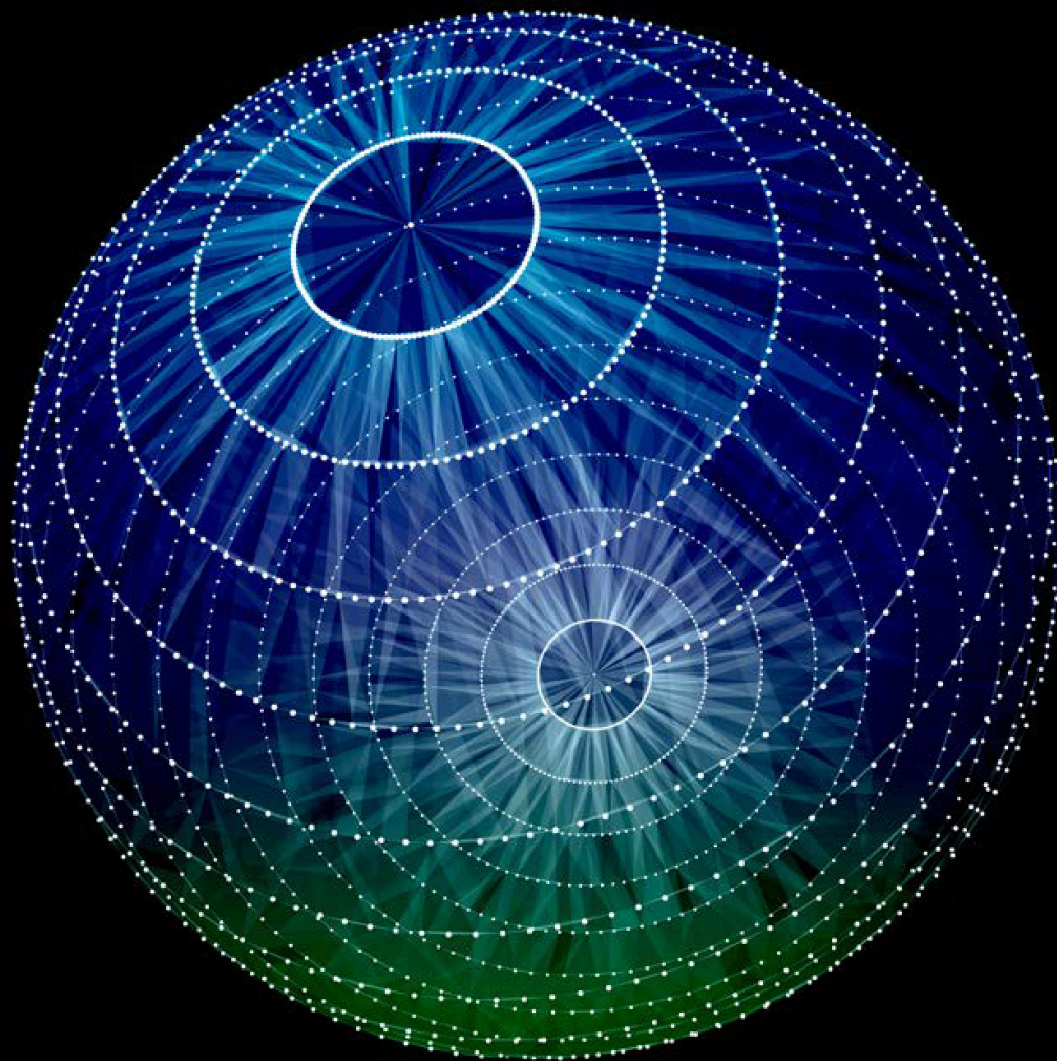




The path to thrive: M&A strategies for a brave new world

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*A Charting New
Horizons report*

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Global M&A markets reached a nadir in 2023, with challenging conditions suppressing total deal value below \$3 trillion for the first time in a decade. There are, however, a few strong positives. Deal volumes remained well above the decade average in spite of a 3% slippage. In a clear sign of returning corporate confidence, the megadeal segment (over \$10 billion) largely kept pace, with 28 such agreements announced.¹ Perhaps most notably, the year ended with a bang when nearly \$750 billion worth of deals were announced in rapid succession during the last three months, with buoyancy spilling over into 2024.²

Insight in brief

Dealmakers face a mixed picture. Several conflicts around the world continue to have significant impacts on the macroeconomic backdrop. The ongoing war in Ukraine has moved the tectonic plates of geopolitics, impacting economies, global trade lanes, supply chain systems, and the green energy transition. Tensions from Houthi attacks in the Red Sea, related to the ongoing Israel-Hamas war, pose additional risks to global supplies. At the same time, however, inflation continues to fall in many nations, bolstering confidence and raising the prospect of interest rate cuts.

Corporate leaders need to adapt their organizations for these systemic and structural changes. If inflation continues to subside, interest rate cuts could follow and improve capital flows for deals. The interruptions to supply chains may force some significant changes to the movement of goods. Meanwhile, renewed activist pressures and investor expectations for profits with purpose pose challenges, and corporations should also anticipate greater regulatory scrutiny.

The path to thrive will be defined by two distinct capabilities: *resilience*, in which a company needs to secure its foundations, rapidly adapt, and emerge stronger; and *transformative growth*, in which it needs to reinvent the business to succeed in the new realities.

The past few years have firmly demonstrated the critical role of M&A strategies, both in defense to preserve value and in offense to drive growth. The M&A markets are highly resilient. Our analysis of nearly 40 years of historical data shows deal volumes tend to recover rapidly as confidence improves. Hence, we anticipate new M&A strategies will emerge and play a central role in helping companies fortify their gains, accelerate change, and capture market leadership.

In parallel, technology-led disruption is fueling cross-sector convergence, leading to unique opportunities to create new businesses and market segments. These dynamics have necessitated the expansion of traditional M&A strategies to include collaborative structures such as joint ventures, partnerships, and ecosystem alliances that are not bound by sector boundaries, instead focusing on common purpose and values.

Technologies such as artificial intelligence (AI) are set to revolutionize M&A processes. Many dealmakers have started adopting AI to aid origination and due diligence. The inexorable shift toward technology and digital business models will also raise the importance of assessing intellectual property in due diligence and valuation.

The renowned statesman Benjamin Franklin observed that “by failing to prepare, you are preparing to fail.” As corporate leaders prepare their organizations to adapt and thrive in the new era, the capacity to balance resilience and transformative growth with corporate sustainability and trust will likely be the hallmarks of success.

In retrospect: Evolution of the M&A wave (2020–23)

In 2021–22, following the uneven sector effects from the COVID-19 pandemic, a record \$8 trillion worth of deals were announced.³ The businesses doing deals took advantage of their strong cash positions and the favorable debt markets, particularly in 2021 before the Ukraine crisis, to make M&A central to recovery. These investments marked a strong contrast to corporate strategies in the years following the 2008 financial crisis, when a uniform drag across industries suppressed a great deal of dealmaking.

The recovery of recent years was short-lived, however. In 2023, deal values slumped to a decade low of \$2.6 trillion,⁴ following a period of

macroeconomic uncertainty, inflation, and the raised interest rates that impacted businesses’ cost of debt.

Nevertheless, the near \$750 billion worth of deals announced in the last quarter of 2023, and the 28 megadeals throughout the year, may indicate returning confidence. The largest corporate activity by value was in energy, resources, and industrials, the only category to grow as oil and gas companies defensively pursued scale. This was well ahead of financial services—where banks, disadvantaged by macro shocks and slow loan growth, liquidated assets. Technology, media, and telecoms saw M&A values fall amid uncertainty and regulatory

Figure 1: Corporate M&A strategies in 2023



Source: Deloitte categorization of \$1B+ global M&A deals during 2023.

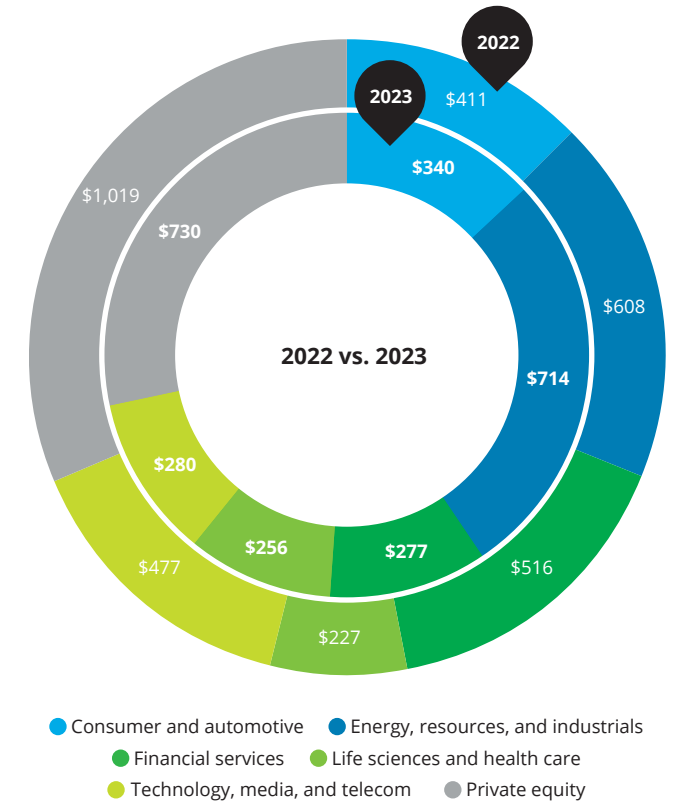
scrutiny, and in spite of telecoms’ infrastructure divestitures. Meanwhile, pharma businesses aimed to secure their portfolios ahead of patent expiries.⁵

On the other hand, there was also substantial offensive M&A. With the increased spending on AI, technology firms moved to fill gaps in portfolios and add capabilities in response to the shifting trends. Power companies made offensive moves as the necessity of the energy transition drove deals.⁶ Similarly, industrial businesses

acted to ensure they could incorporate automation and electric vehicle capabilities.⁷

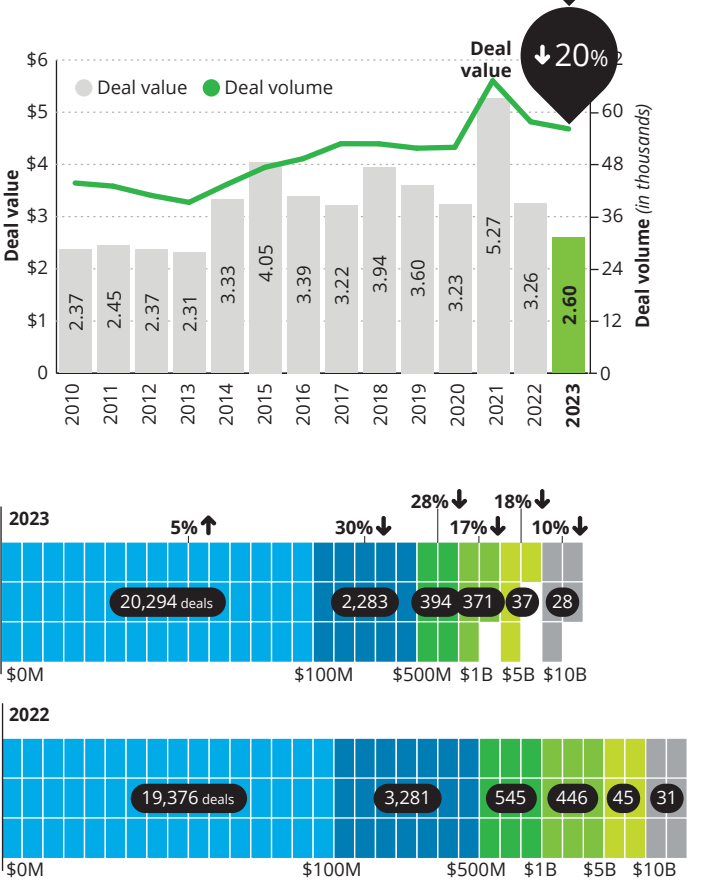
Overall, deal volumes remained steady in 2023, with more than 54,600 agreements. Amid the value decline, there was an emphasis on mid/smaller-sized deals. Agreements worth less than \$100 million were the only category to grow,⁸ as companies sought targeted market growth, new capabilities, and cutting-edge partnerships.

Figure 2: Global M&A sector breakdown (in billions of US dollars)



Source: Based on Deloitte’s analysis of M&A data generated via the Refinitiv database on January 12, 2024, and subjective analysis of deal archetypes.

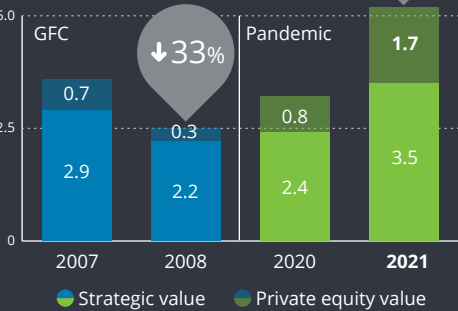
Figure 3: Global M&A volumes and values 2010–23 (in trillions of US dollars)



Source: Based on Deloitte’s analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Lessons from two crises

M&A trends compared between GFC and pandemic crisis (in trillions of US dollars)



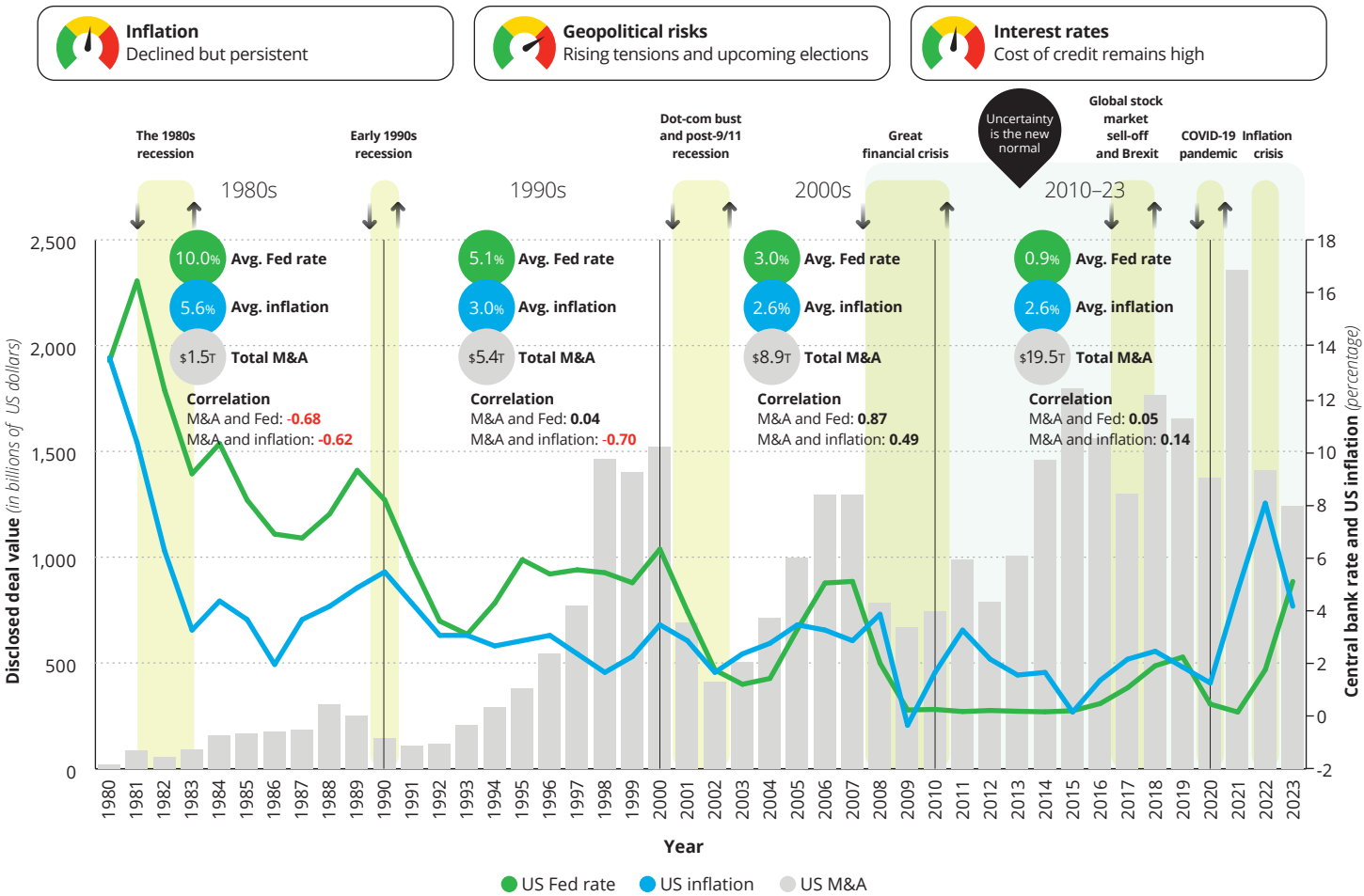
Key drivers	Global financial crisis	COVID-19 crisis
Speed of crisis and recovery	Gradual buildup over 18+ months	Matter of weeks
Sector impact	Financial services was disproportionately affected	All sectors were immediately affected, notably travel, hospitality, and retail
Corporate priorities	Salvage value Preserve cash	Business continuity Safeguard markets
Financial system	Under-capitalized banks that are unable to lend Weak IPO markets	More resilient and conduit for (government) lending Strong debt markets
M&A markets	Significant collapse in M&A markets, and it took 5 years to return to normal levels	M&A markets bounced back within two quarters, companies made M&A central to recovery, and 2021 hit an all-time record
Private equity	Retrenched from M&A markets, priority was portfolio refinancing	Private equity was one of the driving forces in the M&A markets
Post-crisis market conditions	Uncertainty in the new normal—markets constantly reacting to crises including eurozone debt, Brexit, etc., culminating with the pandemic crisis Ultra-low-interest-rate environment that lasted more than a decade and fueled the boom in M&A markets Tech sector led a record bull run in stock markets; it mirrored a strong IPO market Exponential growth for innovative market-platform startups	Beginning of high-inflationary and high-interest-rate environment Pressure on supply chain, commodity prices, and consumer spending Sharp decline in valuations and emerging signs of bear markets Corporates have significant cash reserves, strong balance sheets, and are prioritizing business resilience and strategic growth ESG (environmental, social, and governance factors) emerging as a keystone investment theme along with game-changing disruptive technologies like AI

Source: Deloitte perspectives and analysis based on data from Refinitiv and Bloomberg.

Prelude to the future: The resilience of M&A markets

Looking ahead, there are some convincing positive signs for dealmakers in 2024, in spite of geopolitical uncertainty. Inflationary pressure is broadly subsiding, and global economic growth for the year is predicted by the International Monetary Fund to be 3.1%,⁹ an upgrade on account of better-than-expected large market resilience.

Figure 4: Impact of inflation, interest rates, and crisis periods on M&A markets



Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database, US Bureau of Labor Statistics, and US Federal Reserve Bank on January 17, 2024.

Corporates stand to benefit from this predicted scenario, with analysts expecting an 11% growth in year-over-year earnings for the US S&P 500—above the trailing average earnings growth rate of 8.4% from 2013 to 2022.¹⁰ Increased confidence usually bolsters dealmaking—new tech-based and disruptive growth opportunities and partnerships could emerge, even if other deals focus on cost synergies. Executives must prepare themselves early on to leverage these opportunities.

Dealmaking typically evolves to meet conditions, be it through smaller agreements or bolder moves that capture new opportunities. A Deloitte analysis of historical US M&A, inflation, and Federal Reserve interest rate data shows that deals can be undeterred even if interest rates are elevated. During the five years to 1999, as well as in 2007, an upward M&A cycle continued amid inflation and hawkish rate setting. In reality, dealmakers generally rapidly adapt to changing conditions.¹¹

Should there be any deterioration in conditions, companies would do well to heed lessons from the 2008 financial crisis, when many companies paused M&A, missing potentially valuable deals.

During more difficult periods, there are abundant opportunities for value-enhancing acquisitions because there are fewer competitive bidders, valuations are lower, and previously inaccessible companies turn into appealing, affordable targets. Our analysis shows the deals made during downward cycles have delivered three times more shareholder returns, and 2008–09 vintages produced some of the best returns for private equity firms.¹²

Therefore, companies on sound footing are wise to consider opportunities that take advantage of market conditions relative to their more disadvantaged competitors.

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Navigating toward new horizons

Maneuvering the headwinds

Rethinking funding strategies

There remains a substantial appetite for acquisition-related financing for transformational M&A, and also for defensive assets. That said, companies may need to recalibrate their debt strategies to reflect any changes in market conditions, particularly the cyclical businesses potentially facing some lender limitations. Lenders will likely set a high bar on diligence for such assets, and those exposed to inflation, commodity price changes, and supply chain disruptions. Furthermore, any lingering high interest rates will continue to place pressure on debt serviceability.

In recent years, there has been strong growth in private debt providers, and Deloitte has been tracking this market over many years in our Private Debt Deal Tracker series.¹³ The global private debt assets under management (AUM) stood at \$1.53 trillion as of March 2023.¹⁴ The market is dominated by scale players, who are likely to remain in favor with investors as many benefit from floating rate elements and hedge their risk with contracted floors. Private lenders typically provide more structural flexibility, speed of execution, and a range of innovative solutions such as NAV (net asset value) financing, which is gaining traction owing to greater uncertainty and stressed valuations.

Figure 5: Corporate cash reserves

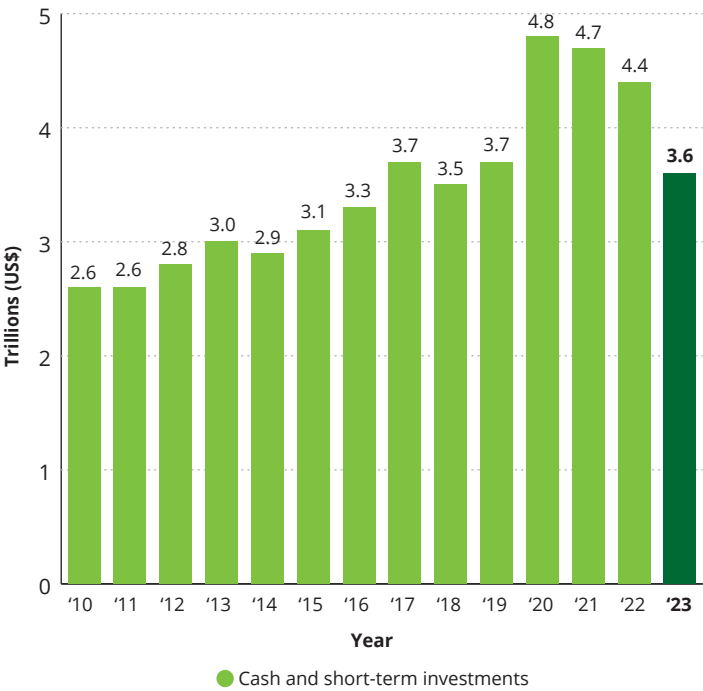
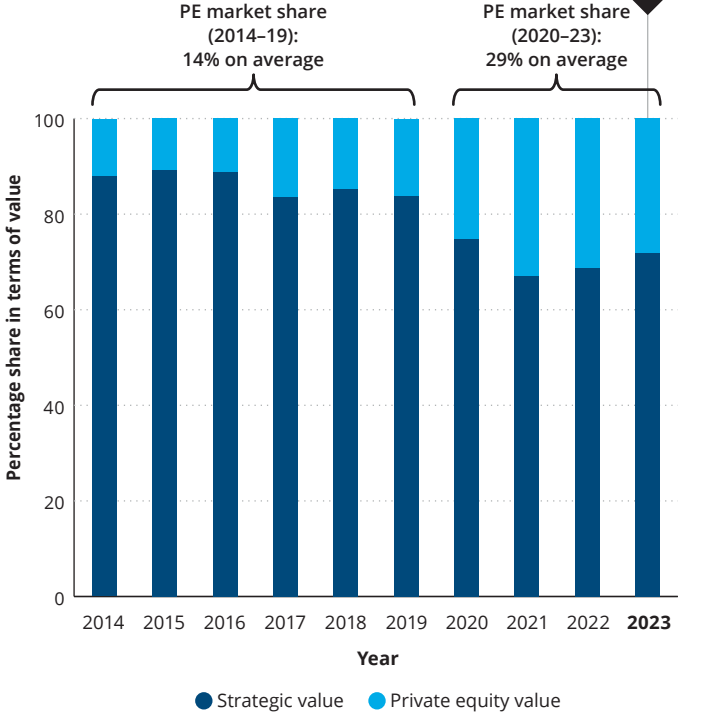


Figure 6: Private equity gains stronghold



Capital allocation discipline comes to the fore

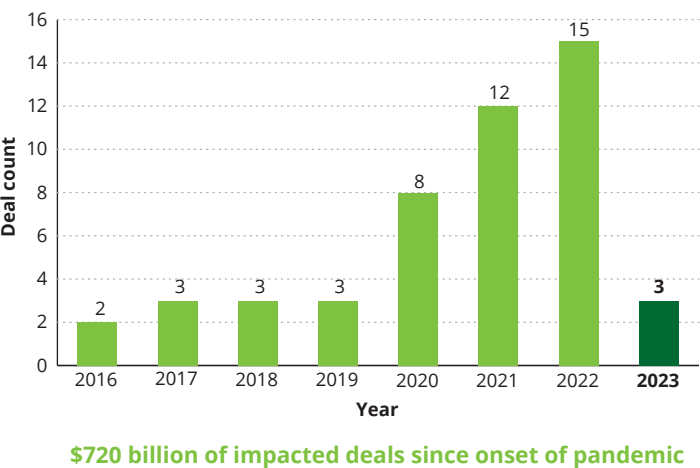
Deloitte recently conducted a global survey to understand shifting attitudes toward capital allocation. We found capital allocation discipline is high on the agenda for most of the companies, and 75% of the respondents identified strategic growth as the key focus of their capital allocation activities. ESG and digital transformation are also high on the agenda, suggesting continued confidence in the boardroom, despite the volatile market conditions.

Our survey found that while most organizations have an investment process, some 60% of respondents lack a clear capital allocation framework to structure, prioritize, and guide deployment decisions. From our experience, the most effective capital allocators use a clearly articulated framework that is linked to the corporate strategy and key value drivers. When capital allocation discipline is embedded in the organization, decisions receive buy-in from across the business portfolio, and individual investments can be assessed against their impact on the overall portfolio's risk-adjusted returns. Scenario planning and data modeling are increasingly critical for optimizing the capital allocation process as it allows for plans to be flexible and adjusted based on portfolio performance.¹⁵

Regulatory hurdles

The elevated levels of M&A activity are catching regulators' attention, and amid severe scrutiny, some \$720 billion worth of deals have been impacted since the onset of the pandemic.¹⁶ There is also constant pressure on deals from activist funds, shareholders, and even consumers, creating further uncertainties. This is presenting a significant challenge to dealmakers, and in some situations this might prompt more public-to-private deals, allowing subsequent moves away from the spotlight of regulators.

Figure 7: Megadeals (>\$5B) stalled or withdrawn due to political and regulatory interventions



Companies will need to demonstrate the long-term benefits of their deals to regulators and broader stakeholders, against a backdrop of protectionist instincts that are clouding M&A. Crucially, whenever a deal is thwarted, investors will expect a "Plan B" strategy to be instigated promptly. Deloitte analysis shows that within one year of a proposed transaction's withdrawal, around half of acquirers and targets remained active in the market and completed new deals.¹⁷

Pressure from activists

Shareholders approved \$5.8 trillion worth of deals during 2022-23,¹⁸ and activist investors are already circling companies holding them to account for realizing the promised synergies. Activist campaign activities rose 7% year over year to 2023, representing the highest levels since 2018, with Europe and Asia-Pacific most heavily affected. Around two-thirds of first-time campaigns focused on challenging M&A or advocating for divestitures.¹⁹

Harnessing the tailwinds

Record cash reserves

Since the onset of the pandemic, companies have taken decisive measures to bolster their cash piles. Despite a decline since 2020, the cash levels stand at a solid \$3.6 trillion.²⁰ Collectively, this represents a very substantial arsenal. Dealmakers would be wise to heed the lessons of the 2008 financial crisis when a compulsive cash accumulation culture emerged in the aftermath, and it inhibited the evolution of potential future-shaping investments and deals. A Deloitte study, "The cash paradox," found the markets were highly rewarding of companies that invest excess cash in the pursuit of growth, and such companies managed to grow their share price at an astonishing rate of 632%, compared to 327% growth rate of their cash-hoarding counterparts.²¹

Private capital

Private equity funds drove 28% of global deal value in 2023, larger than any corporate sector. We expect them to remain a significant force in M&A markets.²² Alongside private debt capital they hold nearly \$4 trillion of uninvested "dry powder,"²³ making for one of the most significant forces in the financial markets. Increasingly PE firms are deploying buy-and-build platform strategies to consolidate market segments and are entering areas ripe for creative value realization such as telecoms infrastructure. Technology platform plays, digital transformation opportunities, and ESG investments are also in favor.

Cross-border trade lanes

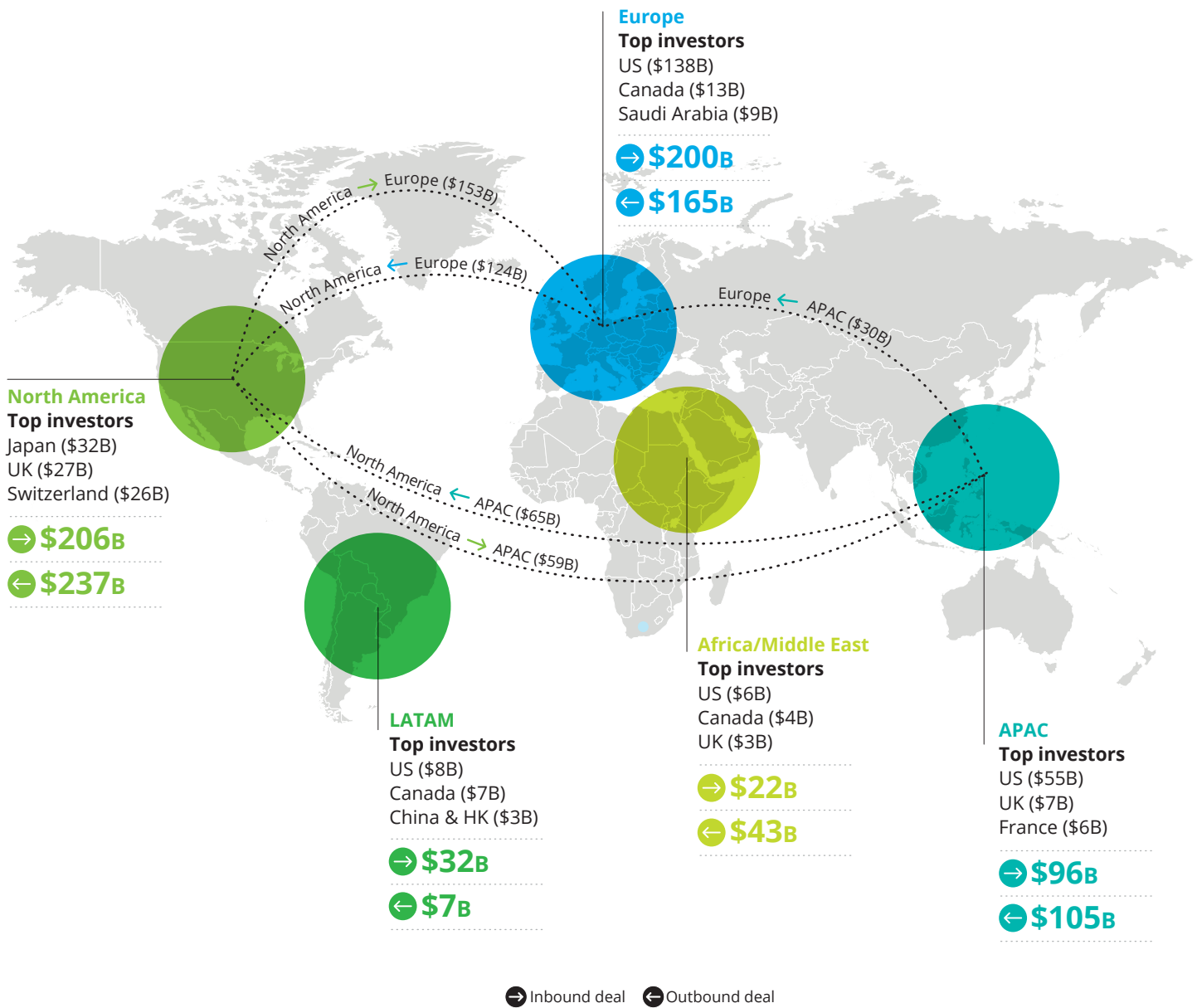
With some \$870 billion worth of deals in 2023, cross-border M&A remains strong.²⁴ A recent Deloitte survey of US-headquartered companies shows a two-year leap of 22 percentage points in the enthusiasm of corporates and private equity funds for acquiring international targets.²⁵

The North America–Europe M&A corridor is particularly popular, with \$277 billion worth of deals in 2023, a 7% yearly increase.²⁶

Traditional corridors such as this are expected to remain busy this year, particularly with eurozone companies trading at a 36% discount to their US counterparts on a forward price-to-earnings basis.²⁷

With most G7 countries challenged for growth, companies may also explore new markets in emerging areas such as in Southeast Asia and Africa.

Figure 8: North America–Europe and Asia-Pacific–North America were the major deal corridors



Subsector valuations

While average price-to-earnings deal multiples rose last year to 25.1 from a nine-year low in 2022,²⁸ for the most part they remain attractive and significant subsector opportunities abound. For example, areas such as biotech and fintech have seen falls in valuation but offer strong long-term growth potential. Also, companies with weaker debt ratings will find it difficult to secure financing and might become attractive candidates for takeover.

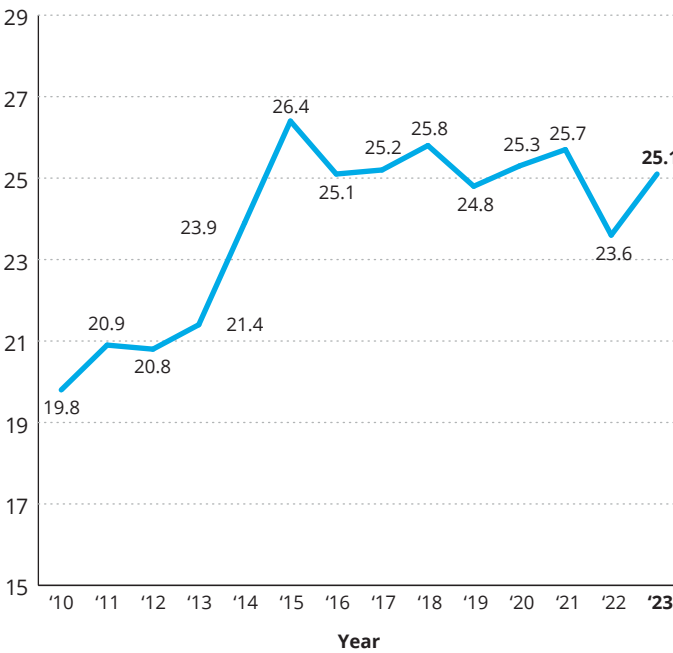
When evaluating opportunities, companies should undertake rigorous valuation that is underpinned by dynamic modeling, scenario planning, and detailed value extraction plans. This should help strike the balance between mature acquisitions targeting short-term returns and those based on the promise of exponential disruptive growth.

Impact investment and ESG

Shareholders are increasingly holding companies accountable for performance on ESG parameters; in turn, impact investing is fast becoming a dedicated strategy. Our recent global capital allocation survey shows that 65% of businesses expect ESG initiatives to increase enterprise value. It is also increasingly playing a role in capital allocation: The survey shows 57% of companies consider ESG in acquisitions.²⁹

Global fund managers representing a total of \$121 trillion of assets under management have signed up to the UN Principles for Responsible Investment (PRI)³⁰ and they are increasingly holding companies accountable for performance on ESG parameters. In addition, many investors are putting pressure on private equity and venture capital firms, and this has led to the launch of the ESG Data Convergence Project to advance standardized ESG reporting.³¹

Figure 9: Global M&A price-to-earnings ratio deal multiples



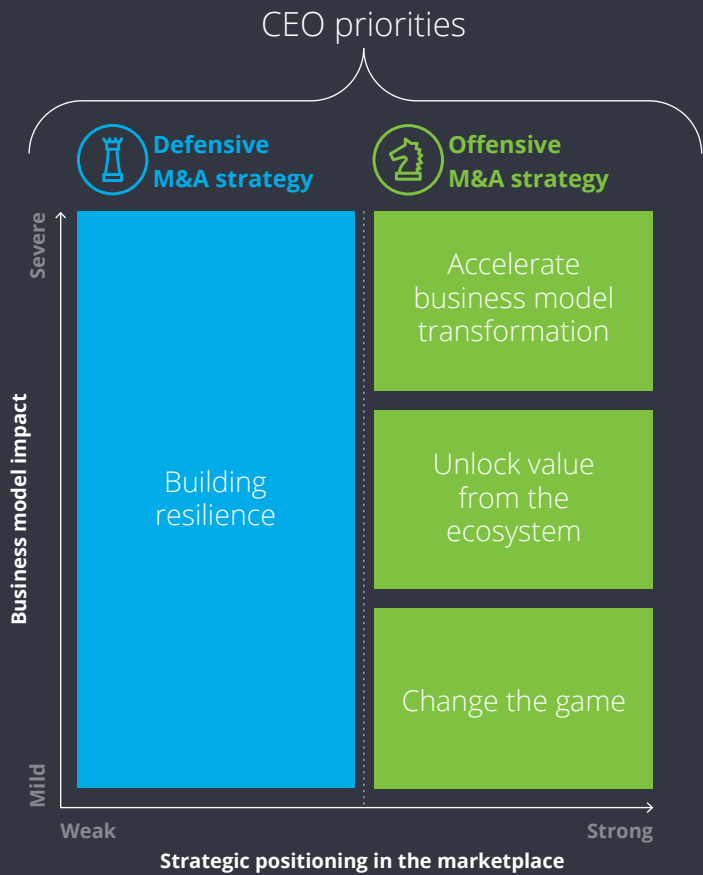
Path to thrive: Rethinking M&A strategies

As we move in a fast-shifting world, through previously uncharted paths, thriving in such an environment requires companies to reimagine the future of their markets, reexamine their core capabilities, and reevaluate their competitive advantages. In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations. This will help them make fundamental choices on growth strategies, prioritize the markets and segments where they need to play, identify gaps and the skills they need to win, and determine how to transform themselves in the process.

Building on our research from the original *Charting New Horizons* report,³² we have evolved the M&A framework to demonstrate a new set of defensive and offensive deal archetypes that are required to build resilient business models, accelerate transformation, unlock the potential of ecosystem alliances, and capture market leadership. Redefining M&A strategies in terms of these choices will bring much-needed clarity of purpose while paving the path to thrive.

In parallel, as part of long-term value creation, companies also need to consider the impacts of other macro themes such as digitization, technology shifts, climate change, health care and well-being, energy transition, skills shortage, and aging populations.

Charting new horizons M&A framework



Building a resilient company

- Accelerate synergy realization from recent deals, evaluate your current portfolio, and divest assets that are not aligned to long-term growth.
- Optimize your portfolio and strengthen your core by acquiring competitors to consolidate the marketplace.
- Consider opportunistic deals to secure your supply chain systems, safeguard your customer channels, and enhance market positioning.

Charging the growth engine

- Transform your business model by acquiring value-enhancing products and capabilities. Identify portfolio gaps, and consider expanding toward market adjacencies through acquisitions in digital, ESG, and platform plays.
- Capture opportunities through purpose-led alliances and partnerships involving nontraditional peers and scale-ups from the ecosystem.
- Invest in disruptive innovation assets to scale at the "edge."

Business model impact: Consider the impact of post-pandemic structural changes on your employees, customers, suppliers, and operating model.

Strategic positioning in the marketplace: Consider your liquidity position, balance sheet strengths, ability to raise capital, competitive environment, threats of disruption, and drivers of competition in the marketplace.

Defensive M&A: Building resilience

One of the lessons from the pandemic is that all companies, large or small, will need to firmly establish resilience at the heart of their business model and organizational culture. Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future. We anticipate these defensive plays will materialize in several different ways:

Cleaning the stables

Accelerate synergy realization and deliver value

In 2022 and 2023, shareholders approved more than \$5.8 trillion worth of deals,³³ and now the dealmakers involved can expect significant investor pressure to accelerate synergy realization and deliver value.

Investor reactions matter. In their new book, *The Synergy Solution: How Companies Win the Mergers and Acquisitions Game* (Harvard Business Review Press), Deloitte authors Jeff Weirens and Mark Sirower studied 1,267 deals over a 24-year period, collectively representing around \$5.37 trillion of equity value. They found that initial market reactions, positive or negative, are powerful predictors of how deals will eventually turn out. The authors identified clear evidence that acquirers who begin with a positive market reaction and deliver on their promises enjoy returns some 60 percentage points higher than acquirers who start by facing a negative reaction and go on to realize those negative forecasts.³⁴

Most integration programs follow a consistent pattern of three phases: integrate to close, establish an interim operating state while investing for the future, and deliver the realization of the business case. The fundamental problem is most programs never go beyond an interim state due to changes in market conditions, insufficient management attention, and a business-as-usual mentality taking over. The longer post-close execution takes, the less likely management will be able to deliver the promised returns. Sophisticated acquirers transform as they transact, to accelerate the time-to-value of business case realization. Leveraging tools, such as predictive analytics, robotic process automation, and digital platforms, can help capture both cost and revenue synergies, ensuring a merger is far more than the sum of its parts.³⁵

Additionally, based on Deloitte's work on thousands of deals, we estimate that tax synergies regularly represent more than 20% of available deal gains. Significant benefits can be found in tax alignment in the value chain—including among suppliers—and through improved operating footprints and integration strategies. Strategies such as capturing local tax credits and shifting some software to the cloud can contribute to the self-funding of digital transformations. Companies should be equally mindful of potential tax risks, with careful consideration given to the location of intellectual property rights and profit generation, as well as local presence stipulations.

Building resilience can help ensure an organization is agile and adaptable, able to ward off threats from the marketplace, and prepared to deal with complex and unpredictable events in the future.



Defensive M&A

Optimize the portfolio

Many companies are facing pressure from activist hedge funds for portfolio restructuring, from regulators pressing for asset carve-outs as a condition for merger approval, and from their own boards, which are keen to ensure companies remain on track with sustainability and net-zero commitments.

In Deloitte's recent North American CFO Survey, more than one-third of finance leaders indicated their top M&A priorities were strengthening a core business, or raising capital via divestiture or alternatives.³⁶ Becoming a prepared seller is more important than ever. The one-time cost of preparing to shed a business is rising. In our 2024 Divestiture Survey, more than half of the survey respondents say the cost of a typical divestiture is at least 6% of the revenue of that asset.³⁷

In addition, many companies are also reexamining their existing business through an ESG lens and identifying problematic assets. Potential buyers are increasingly sensitive to risks around workplace inclusion and diversity, the supply chain, brand perception, and the impact of climate change. Given these shifts, ESG-related diligence and compliance are becoming key components of deal execution and post-deal transformation.³⁸ Recently, when a large private equity firm acquired the beverage division of a major consumer business company, it undertook additional diligence specific to ESG considerations and made it central to the investment process.³⁹

Strengthening the fortress

Explore opportunistic deals to safeguard supply chains and competitive positioning

Global supply chain disruptions are affecting every sector, either directly or indirectly. In addition, changing stakeholder expectations toward ESG are putting pressure on businesses to fundamentally redesign their supply chain systems to improve transparency and reduce their carbon footprint.

M&A activities can play a key role in shaping the response. Companies could explore opportunistic deals to safeguard existing supply chains and consider innovative options such as backward or forward integration with suppliers. For instance, a major global retailer is considering starting a captive shipping company and acquiring its own containers to maintain seamless flow of goods.⁴⁰

Companies could also consider strategic acquisitions of suppliers to maintain competitive positioning in the market. In response to the global semiconductor chips shortage crisis, a major chipmaker recently acquired a specialist chip contract manufacturer to boost its production capacity and safeguard its customer base.⁴¹

Businesses may look at consolidation to firm up competitive positioning. Among those already doing so is a major Canadian bank that acquired a competitor in the United States as it provided entry into growth markets, complementary capabilities to drive efficiencies, and the ability to capture powerful economies of scale.⁴²

It is also important to consider co-investment and partnership opportunities with suppliers or even private equity firms, to pool capital and expertise toward investing in value-enhancing opportunities. For instance, a major global logistics company recently sold a minority stake in one of its subsidiaries to a PE firm to tap into the fund's significant investment strength and expertise, jointly implementing a transformational value plan with new freight-forwarding trade routes, additional growth verticals, and fresh M&A activities.⁴³

Offensive M&A: Charging the growth engine

As the first US President George Washington observed, “The best defense is a good offense.” Bold moves involving transformative acquisitions, ecosystem alliances, and disruptive investments will be required to charge the growth engine and lay the groundwork to capture market leadership. Companies clearly need to play offense to gain momentum, and we anticipate those efforts to materialize in several different ways:

Accelerating business model transformation

Capture the digital future

The pandemic conditions ruthlessly exposed companies that lagged in digital investment, omnichannel capabilities, and agile operating models, and at the same time, they enabled new market opportunities for companies that were digitally prepared.

In a recent North American CFO Survey by Deloitte, more than three-quarters of finance leaders indicated digital transformation and technologies will play a greater role in achieving their companies’ strategy.⁴⁴ Such change is an enterprise-wide long-term commitment that cuts across business departments and technologies. Some companies will actively seek alliances and partnerships for these efforts, while others will acquire technologies and capabilities to accelerate their transition. In response to the significant growth in online shopping, a major heritage shipping company made multiple e-commerce logistics acquisitions in a relatively short space of time to rapidly scale its digital and integrated logistics capabilities.⁴⁵

Impact investing is fast becoming a dedicated M&A strategy, and in 2023, around \$158 billion was spent by corporations on acquiring relevant assets, the second-highest figure on record after the peak of 2021.⁴⁷

Identify portfolio gaps and expand the value chain

Corporations need to regularly reevaluate their sources of competitive advantage, identify portfolio gaps, and consider opportunities for expansion. Establishing a pipeline of deals can expand a company’s value chain and make it easier to capitalize on adjacent market spaces. Companies may also explore platform business models to expand and unlock the value of their customers and networks. For instance, a major technology business that specializes in financial software has acquired a marketing platform to significantly expand its service offerings and continue its transformation to become the leading AI-driven expert platform for small businesses.⁴⁶

ESG—delivering returns with purpose

Businesses are increasingly expected to demonstrate they can deliver returns with purpose and create value not only for their shareholders, but also for their stakeholders including employees, customers, suppliers, and the societies where they operate. In turn, many companies are aligning their investment strategies with UN Sustainability Goals, a universally accepted framework for measuring progress against ESG goals. Impact investing is fast becoming a dedicated M&A strategy, and in 2023, around \$158 billion was spent by corporations on acquiring relevant assets, the second-highest figure on record after the peak of 2021.⁴⁷

Offensive M&A

Investing in ESG pathways requires companies to adopt a multidimensional M&A strategy. These could involve *product plays* by investing in businesses whose core product and services drive ESG improvement, such as those in waste management; *infrastructure plays* by investing in companies that provide the underlying infrastructure for sustainable solutions, such as those in vertical farming; and *technology plays* by investing in businesses that are using disruptive technologies to displace the market by creating new product categories, such as those using cell-based biotechnology to cultivate meat in laboratories.

Unlocking value from the ecosystem

Collaboration as a competitive advantage

One of the enduring legacies of the pandemic is how corporates embraced collaboration, forming the bedrock of global recovery. Current conditions will continue to bring significant challenges such as supply chain disruptions, skills shortages, climate change complexities, cross-sector convergence, and many others that cannot be solved unilaterally.

These dynamics have necessitated the need to expand the scope of traditional M&A strategies to include collaborative structures such as ecosystem alliances, partnerships, and other similar constructs that are not bound by traditional industry boundaries, but instead coalesce around common purpose and create shared value for the businesses, their clients, and their communities. It seems that every opportunity now needs to be considered through the lens of whether to build, buy, or collaborate.

Companies should actively reach out to a multiplicity of partners to build such purpose-led alliances and partnerships.⁴⁸ This could include allying with a diverse range of collaborators including suppliers, PE firms, innovative startups, cross-sector specialist peers, or even traditional competitors. Among those already doing so, in the aviation sector, a progressive alliance of an aircraft manufacturer, industrial gas supplier, and airport operator has been formed to promote the use of hydrogen infrastructure and accelerate decarbonization of the aviation industry.⁴⁹

Changing the game

Capitalize on cross-sector convergence

The rapid adoption of exponential technologies, digitization of businesses, and shifts in consumer attitudes are blurring traditional sector boundaries, leading to convergence of business models across disparate sectors. It is resulting in the further evolution of ecosystems and creating opportunities for innovators and nontraditional players to disrupt established companies by redefining the basis of competition.

This has unleashed a new paradigm of disruptive M&A, in which companies have spent more than \$1 trillion investing in assets in recent years. Remarkably, the nontechnology sector has overtaken the traditional tech sector’s investment in such assets.⁵⁰ Such deals are inherently linked to long-term transformation, and we expect them to remain one of the defining features of the M&A marketplace. For instance, as part of its ongoing transformation, a conventional retail giant recently invested in a point-of-sale financing platform to jointly develop and extend innovative consumer financing solutions to its customers.⁵¹

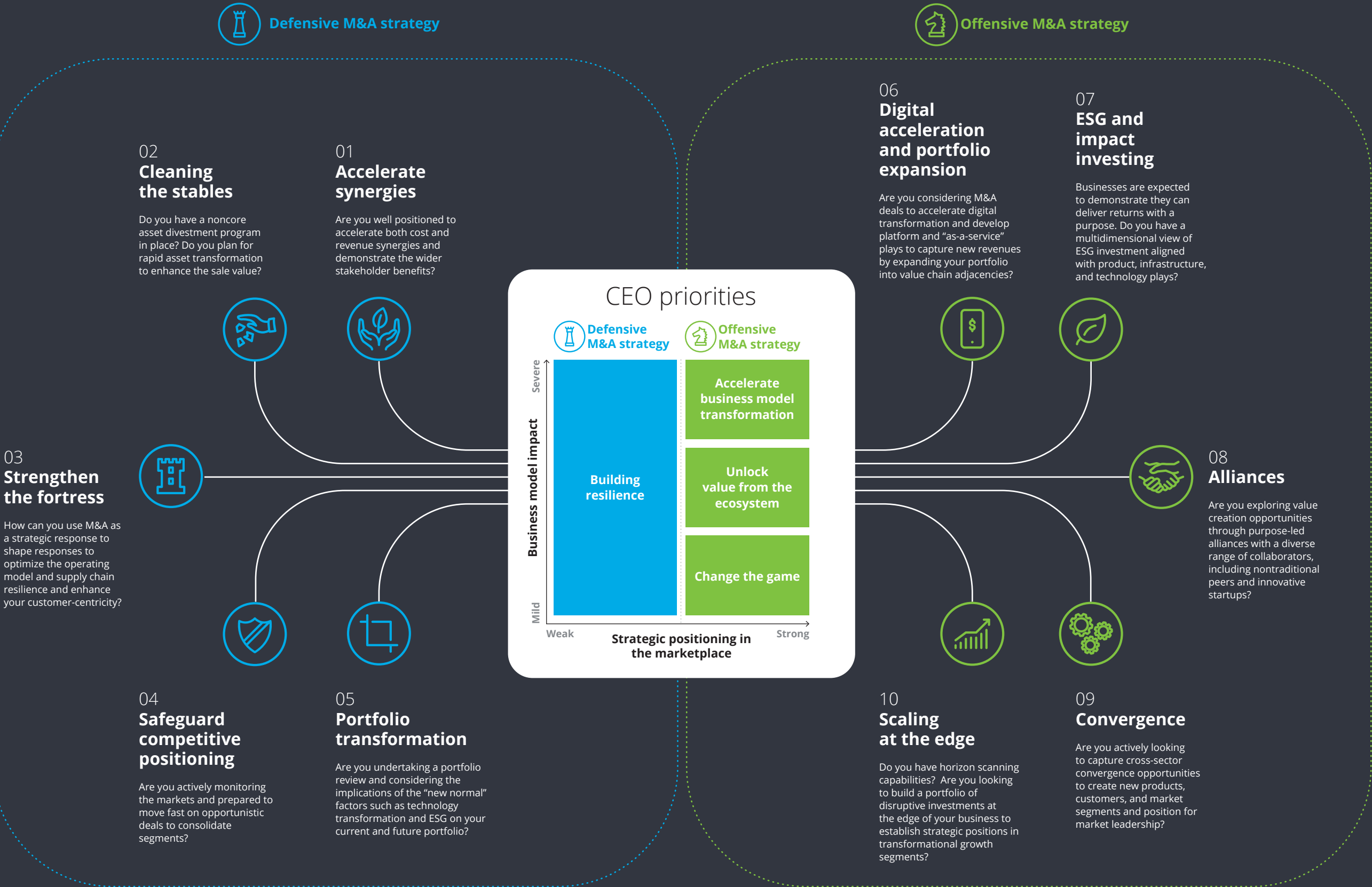
Scaling at the edge

Corporate venturing is a springboard to test new technologies, market offerings and talent that can shape the future of sectors. As ecosystems mature, it is important that companies develop corporate venturing strategies and aligned capabilities such as horizon scanning and ecosystem engagement as an integrated approach to innovation-led business transformation. Such capabilities can give companies the confidence to build a portfolio of investments at the edge of their existing markets and establish strategic positions in transformational growth segments. For instance, a major consumer business company was using its venture arm to closely monitor scientific trends and technologies around conventional meat alternatives, and this informed its investment in a cultivated-meat startup.⁵²

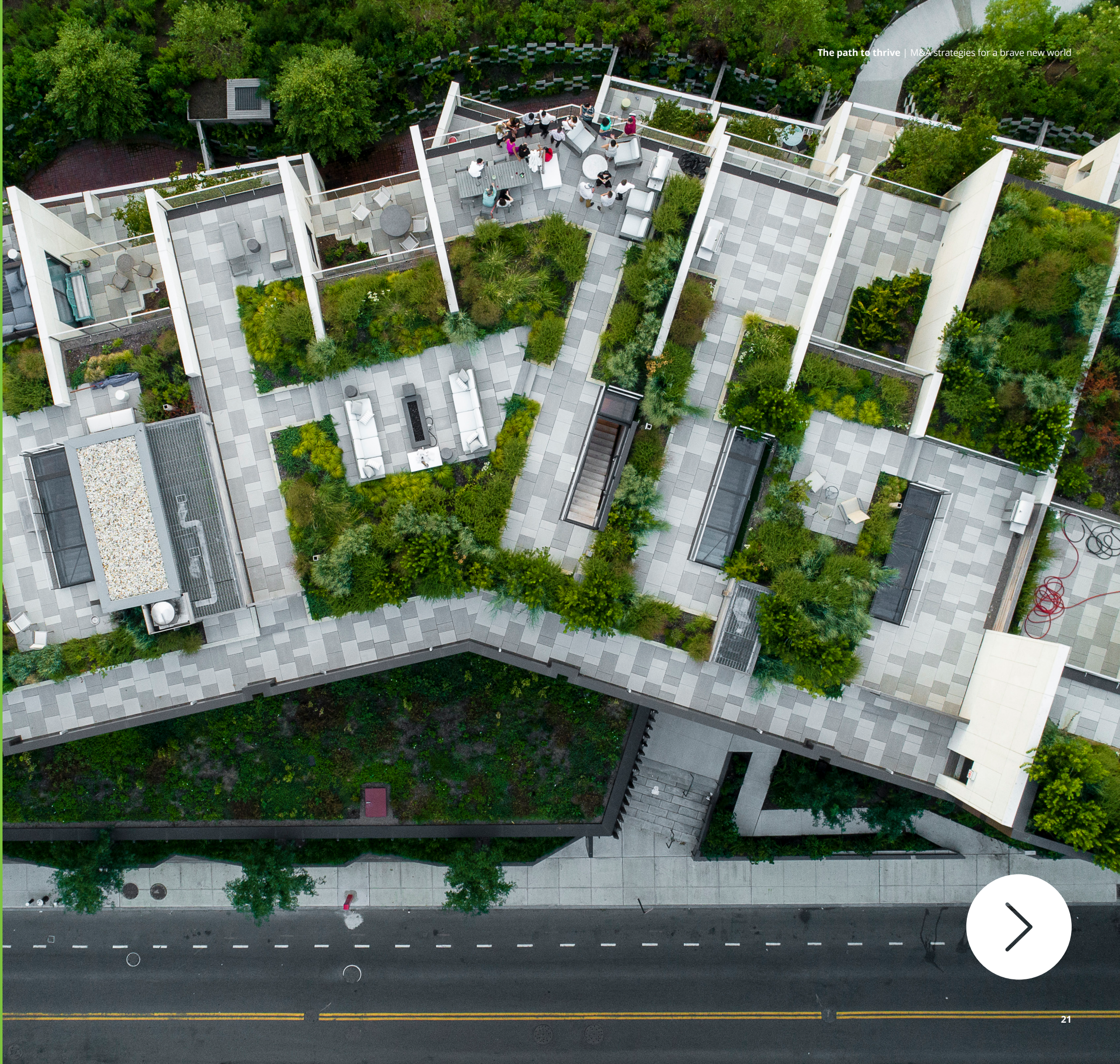
M&A and the path to thrive

Sectors will evolve at different trajectories and paces. At the same time, technology-enabled convergence is blurring traditional sector boundaries and creating new market opportunities and customer segments. Companies need to reframe their growth options to include not only financial considerations but also operating model agility, competitive positioning, capital return horizon, and brand permission to enter new markets.

M&A strategies are now firmly cemented as a fundamental part of the corporate arsenal, both in defense to preserve value and in offense to drive transformative growth. This framework can help companies articulate a new combination of M&A strategies to fortify their gains, accelerate business model transformation, and make horizon investments to capture lasting market leadership.



Sector M&A pathways



Energy, Resources & Industrials

Observations

Energy, Resources & Industrials (ER&I) improved in 2023 with stable deal volumes and an 8% YoY increase in deal value to \$868B, driven by megadeals (≥\$10B) in Oil & Gas.

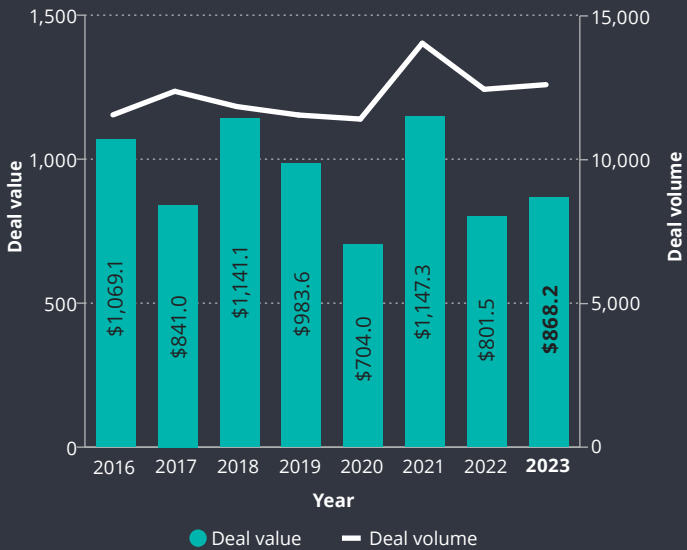
North America, with \$508B worth of deals, was the most active region with respect to deal value. Asia-Pacific with 4,152 deals (\$180B) led in terms of deal volume.

Oil & Gas earned record profits in 2022, providing ample cash flow to fund 2023 strategies. In addition, M&A has become a preferred way to add reserves rather than spending on exploration. This led to megadeal activity in the second half of 2023.

ESG growth areas such as carbon capture, hydrogen, renewables, and other clean technologies are expected to be key focus areas.

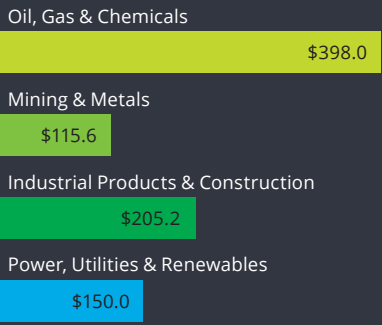
Aerospace and Defense M&A activity is anticipated to increase amid ongoing geopolitical tensions. To remain competitive, manufacturing companies might add digital capabilities.

Energy, Resources & Industrials deal value and volume (in trillions of US dollars)

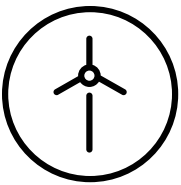
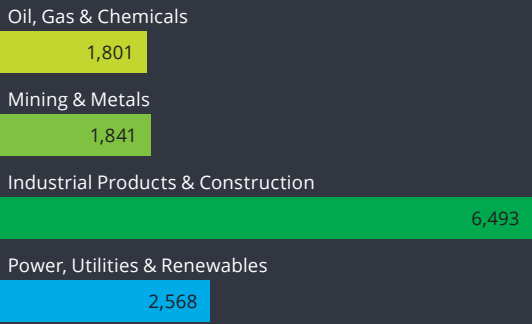


Note: ER&I sector does not include Automotive (this has been included in Consumer).
Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Deal value by sector (2023) (in billions of US dollars)



Deal volume by sector (2023)



Energy & Resources

Forces shaping 'new normal' conditions

Increased demand and constrained supply are driving changes

- A combination of supply constraints and geopolitical tension has resulted in energy price increases and is putting pressure on operating models that had become lean in recent years offset with low prices.

Active portfolio monitoring

- Companies will need to monitor their portfolios to avoid carrying stranded assets as well as to avoid unnecessary divestment of assets that may prove profitable in other supply/demand environments.

Decarbonization across industries is enabling new energy era

- Decarbonization mandates are gaining pace in all industries and present the opportunity for E&R companies to deliver scale projects and contribute to a low-carbon future.

Importance of customer-centricity will increase

- To thrive throughout the energy transition, fuel companies will need to offer a full suite of products and services.
- Companies will look to draw closer to end customers and incorporate convenience as key to the customer experience.

Green jobs will require new skills in the workforce

- Decarbonization commitments, flexible workforces, and requirements to reskill for digital and renewable capabilities will require companies to design new talent models.

CEO priorities

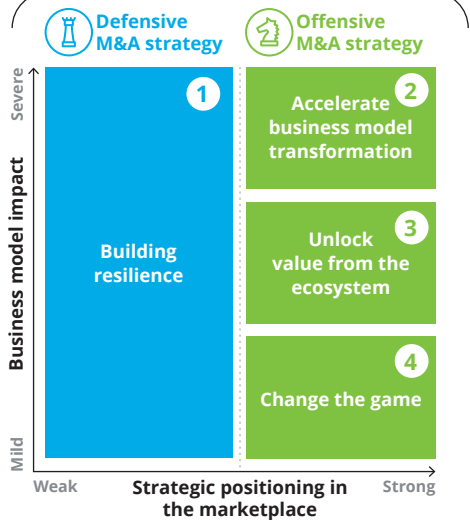
Short-term responses

1 Portfolio restructuring to drive energy transition

Companies are fundamentally rethinking their portfolio, seeking to divest higher carbon-intense assets, pursuing acreage consolidation, and acquiring assets aligned to the energy transition.

2 Investments to build future capabilities

Companies could use the current high energy prices to make significant investments and acquisitions related to digitization and integrated value chain driving new revenue streams.



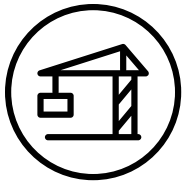
Medium-term responses

3 Energy transition alliances

The energy transition is attracting investments from nontraditional competitors in other sectors, as well as private capital. Companies should consider cross-sector alliances with companies in automotive, technology, and other sectors to gain direct access to customers and explore new revenue models.

4 Sustainability-aligned growth segments

Companies should actively seek opportunities in adjacent markets, such as chemicals, advanced plastics recycling, and others, in which they can leverage existing expertise such as research and development and customer networks.



Industrials

Forces shaping 'new normal' conditions

Technology is driving industrial connectivity

- Advancements in the Industrial Internet of Things (IIoT) and digital twin technology are driving significant innovation in solutions and business models.

Digital solutions will lead to workforce evolution

- Digital-first solutions will affect the skill sets required from the workforce.
- Industrial companies will compete with tech firms for talent, while simultaneously upskilling their current workforce.

Supply chain disruption is affecting production times

- Long lead times for critical components are creating uncertainty in production planning and forecasting.
- Delays in manufacturing and port congestion will drive companies to identify resilient solutions for supply networks.

ESG pressures will continue to grow

- Stakeholders will increasingly call for ESG commitments.
- Creating the factory of the future through smart technology and green energy will remain in focus.

Rising raw material costs are affecting margins

- Shortage of supply along with increases in raw material costs and shipping rates have created pricing pressures.
- Unless contained, these cost rises threaten to outstrip the productivity gains and could significantly affect profit margins.

Short-term responses

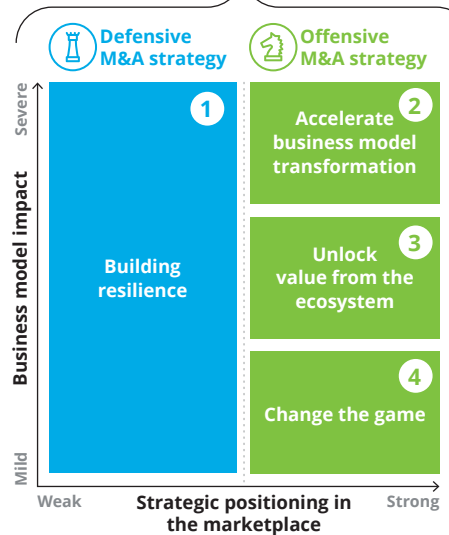
1 Strengthening of value chain

Acquisitions and investments related to vertical integration could help companies secure long-term suppliers and mitigate supply chain disruptions.

2 Shifts in core competencies

The inevitable shift toward sustainable processes and products is likely to affect the core competencies of many companies, and they should drive this change through targeted acquisitions.

CEO priorities



Medium-term responses

3 Technology alliances

Industrial companies should consider alliances with the technology sector to boost innovation and leverage specialist digital skills expertise.

4 Investing in disruptive technologies

Industrial companies should consider growth acquisitions in focused areas such as IIoT, robotics, automation, digital twin, and AI to drive long-term transformation.

Consumer & Automotive

Observations

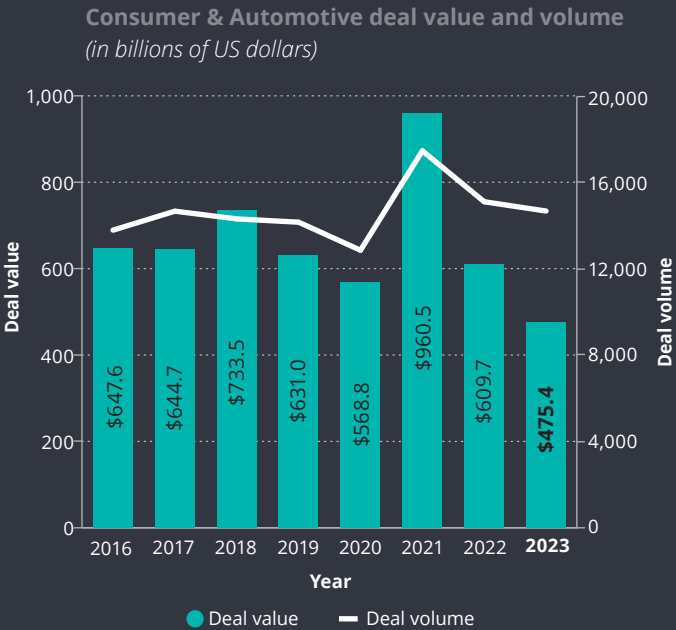
The Consumer sector saw a continued decline in M&A activity, with value down 22% YoY to \$475B in 2023.

In terms of M&A volume, Europe was the most active region with 5,292 deals, followed by Asia-Pacific (4,614 deals) and North America (4,002 deals). Asia-Pacific had the highest total deal value at \$164B driven by a high volume of small-sized (<\$250M) deals.

Transportation, Hospitality & Services was the most active subsector with \$214B worth of deals. Automotive saw the highest YoY increase of 23% to \$67B.

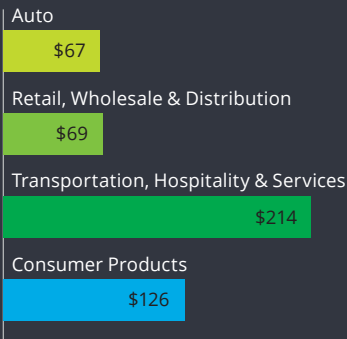
In Deloitte's recent global survey of consumer product executives, 89% said that expansion through acquisitions is a 2024 priority. Half of executives said they regularly divest low-performing business lines and six in 10 rationalize brands/products.⁵³

In the United States, M&A deals may face increased regulatory scrutiny relative to prior years. With antitrust cases common, companies might also consider deals that bring them to adjacent spaces.

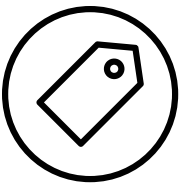
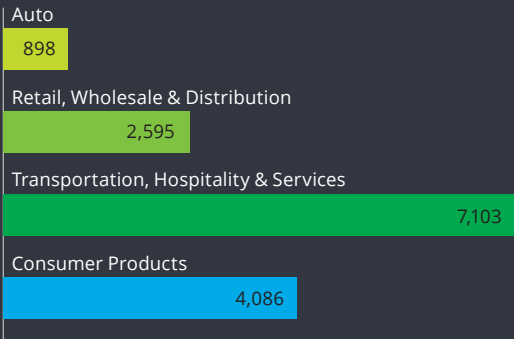


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Deal value by sector (2023)
(in billions of US dollars)



Deal volume by sector (2023)



Consumer

Forces shaping 'new normal' conditions

Pressure on margins

- Surges in inflation, customer demand, supply chain disruptions, and higher labor costs are leading to rapid increases in production costs and pressure on margins.

Slower recovery in some subsectors

- Post-pandemic uncertainty continues to affect the leisure, travel, and hospitality sectors.
- Revenue losses in these sectors, originally from the pandemic but now from inflation, could contribute to an increase in sales of distressed assets and restructuring.

Short-term responses

- 1 Supply chain resilience**
Companies could consider investing in contingency supply chains, which includes considering partnerships with new suppliers, as well as with private equity, to bolster supply chain systems.
- 2 Technology-led transformation**
Digital transformation is fundamental to success. In addition to omnichannel capabilities, companies should consider investments in predictive demand analytics, fulfillment, and dynamic pricing.

Direct-to-consumer (D2C) purchases will increase

- D2C models will enable companies to increase customer-centricity through personalization, loyalty programs, and increased customer service levels.
- More companies will look to be active in the D2C space and acquire platforms to increase scale of distribution.

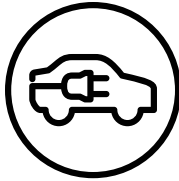
Sustainability and wellness influences purchasing behavior

- Consumers are increasingly willing to pay a premium for socially conscious products, ethical supply chains, and wellness-focused offerings.
- This trend is creating opportunities for new revenue streams.



Medium-term responses

- 3 Pursue alliances**
Companies could consider alliances with their peers to alleviate supply-side pressure, as well as cross-sector arrangements with sectors like technology to enhance customer experience.
- 4 Growth investments**
Companies could consider an ESG-aligned investment strategy to target assets such as sustainable product design and packaging, as well as in emerging growth segments such as personalized nutrition and carbon-neutral travel.



Automotive

Forces shaping 'new normal' conditions

Connectivity is becoming standard

- The majority of cars are expected to have smart connectivity by 2035, driven by consumer demand and regulation.
- Data generated by 5G connectivity will be valuable and utilized by original equipment manufacturers (OEMs), dealers, fleet owners, and consumers.

Electric vehicle (EV) and fuel-cell ecosystems

- The EV market and associated ecosystem are expected to grow in double digits driven by customer preferences, favorable regulation, private capital investment, and the strategic push by OEMs.
- Hydrogen fuel-cell powered vehicles are starting to make up a more meaningful portion of the market.

Short-term responses

1 Safeguard supply chain

Supply chain disruptions may prompt OEMs to vertically integrate critical aspects such as chips and divest auxiliary services such as auto financing, retail insurance, etc. to facilitate these critical investments.

2 Agile business models

Companies should consider investments across the entire value chain to make the business more agile; these include opportunities for digitization, flexible manufacturing, and smart factories.

Shared mobility and mobility-as-a-service continue to grow

- Shared mobility market continues to grow, driven by need for convenience, lower costs, and environmental concerns.
- Customers are using mobility platforms in an increasing variety of ways, including for grocery delivery, courier, and others.

Investment for autonomous vehicles (AVs) remains steady

- Both OEMs and tech companies are investing heavily in autonomous vehicle technologies. However, mass adoption remains distant owing to safety concerns.
- Stakeholders need to work closely with governments to shape future regulations that strike the balance between innovation and safety.

Medium-term responses

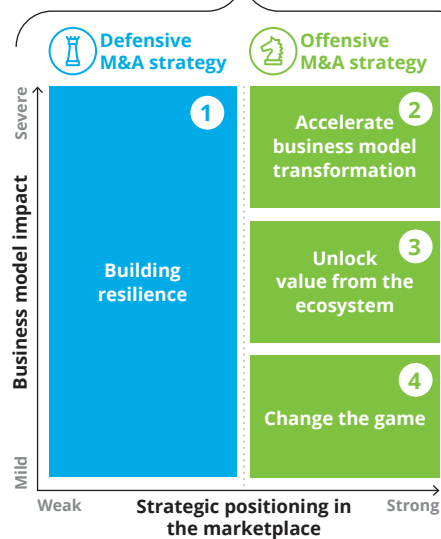
3 Software-centric partnerships for CASE development

Access to a comprehensive software suite is critical to success for driving Connected, Autonomous, Shared, and Electric (CASE) products. OEMs should explore alliances and partnerships to drive this forward.

4 Future portfolio realignment

Companies need to continue building a future portfolio that aligns major shifts in consumer trends. This could include value chain opportunities such as smart infrastructure, recycling, and sustainable materials.

CEO priorities



Life Sciences & Health Care

Observations

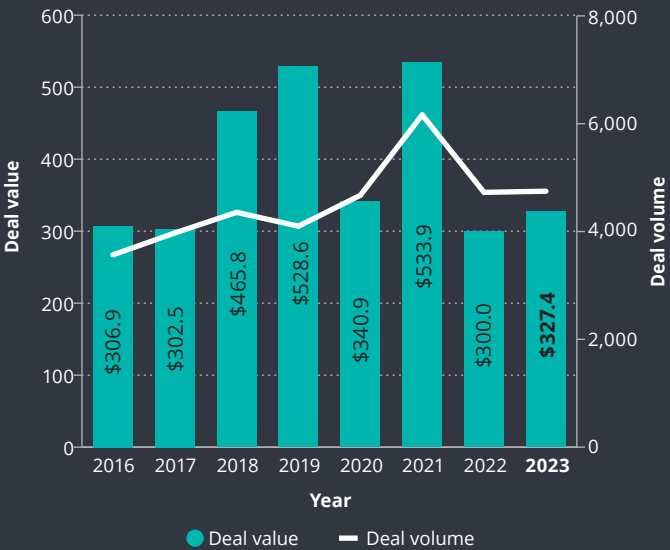
After a heavy decline the prior year, Life Sciences & Health Care (LSHC) recorded a 9% YoY increase in deal value to \$327B in 2023. The growth was primarily driven by the 36% YoY increase in the large deals segment (≥\$1B to \$10B) to a total \$148B.

North America was the most active region, and deals worth \$224B were announced in 2023. Europe came in a distant second with \$54B worth of deals.

Among the subsectors, Life Sciences saw the highest YoY increase in M&A value and volume. Deal values went up by 38% to \$240B, and deal volume also increased by 2% to 1,823 transactions. Life Sciences M&A was driven by large and megadeals as pharma giants sought to fill gaps from expiring patents.

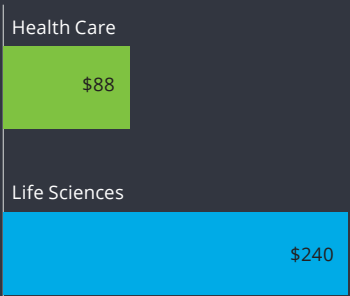
In Health Care, deal values declined heavily, by 31%. However, lower valuations might lead to increased divestiture activity and interest from PE buyers in the future.

Life Sciences & Health Care deal value and volume
(in billions of US dollars)

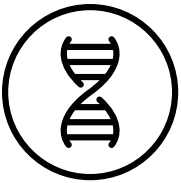
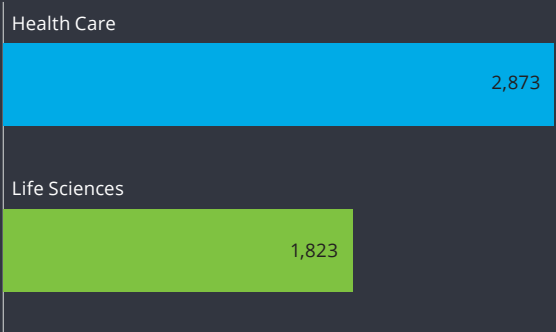


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Deal value by sector (2023)
(in billions of US dollars)



Deal volume by sector (2023)



Life Sciences & Health Care

Forces shaping 'new normal' conditions

Digitization of health care

- The potential for new variants, speed of vaccination, and changing government approaches all contribute to pandemic uncertainties.
- Consumers got used to alternative service delivery methods during the pandemic, and there could be an increased demand for virtual care and automated medication management.

Industry economics may shift

- A focus on value-based and outcome-based care may change the way companies generate revenue.
- New business models would focus on early detection and preventive care.

AI will fundamentally affect business models

- AI and big data create the opportunity to further tailor care to specific patients and treat diseases earlier in their life cycle.
- The rise of virtual and lower-cost sites of care means that some providers may be stranded with more physical assets than needed.

Mental health will continue to be a priority

- Demand for mental health treatments is growing due to reduced stigma, pandemic effects, and other behaviors.
- Models of care that incorporate mental health into existing treatment centers will increase.

Short-term responses

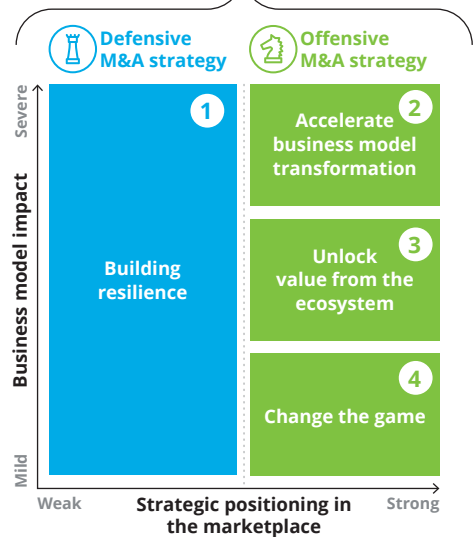
1 Mitigating uncertainties

Companies need to potentially divest noncore assets and invest in capabilities such as supply chain, alternative service delivery, and next-gen therapeutics.

2 Technology-led business model transformation

Investments in digitalization and remote service capabilities will reduce delivery costs, increase patient access, and augment inpatient services. LSHC companies are likely to invest in R&D enabling technologies such as AI-driven drug discovery.

CEO priorities



Medium-term responses

3 Integrating patient-care value chain

Integrating with insurers, providers, and retailers would improve patient care and provide cost efficiencies; data sharing and trust will prove to be critical in delivering value from such ecosystem partnerships.

4 Technology-enabled preventive care

The convergence between technology and health is enabling new business opportunities in areas such as health monitoring, preventive, and predictive care. LSHC companies should have an active investment strategy for such emergent spaces.

Financial Services

Observations

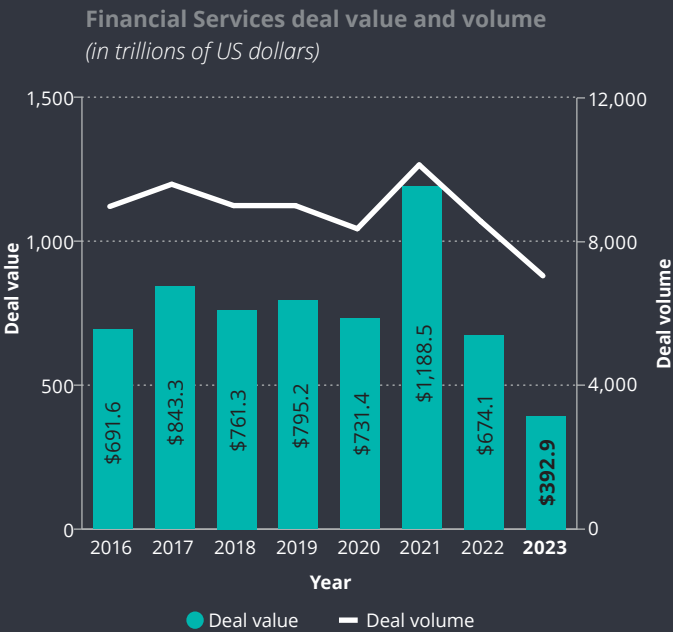
The decline in financial services M&A activity continued in 2023, with the sector registering a 42% YoY deal value drop to \$393B in 2023, the lowest in a decade. Deal volumes also saw a YoY decline of 18% to 7,085 transactions.

Asia-Pacific was the most active region in terms of deal volume with 2,339 transactions, followed by Europe with 2,187 deals.

All the subsectors witnessed a deal value decline, except Insurance where values increased by 17% to \$54B, driven by large deals (≥\$1B to \$10B). Bank failures in the United States and Europe had a dampening effect on M&A activity.

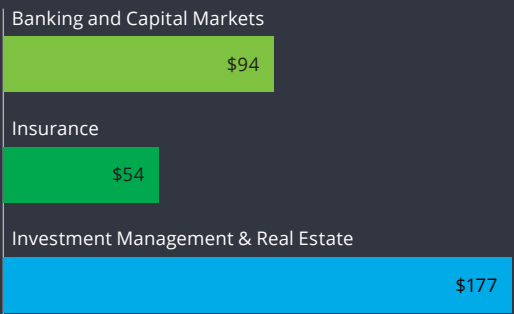
Banking and Capital Markets witnessed a heavy (49%) decline in megadeal activity. Similar trends were found across Investment Management and Real Estate subsectors. Investment Management deal activity heavily declined in Asia-Pacific, but companies turned to joint ventures to expand into new markets.

Falling interest rates, coupled with a rally in bank share prices, might boost the sector's M&A in late 2024. Consolidation pressures in Investment Management may also drive M&A this year.

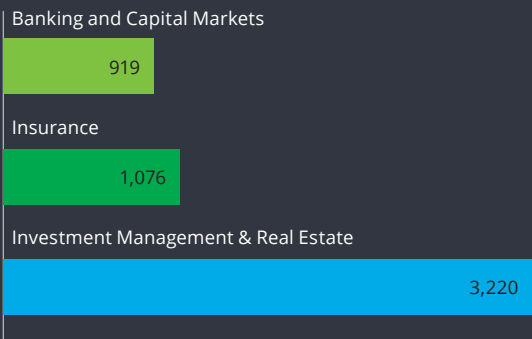


Source: Based on Deloitte's analysis of M&A data generated via the Refinitiv database on January 12, 2024.

Deal value by sector (2023)
(in billions of US dollars)



Deal volume by sector (2023)



Banking & Securities

Forces shaping 'new normal' conditions

Skewed balance sheets are resulting in declining ROE

- Banks have divested noncore assets from their portfolios, resulting in a skewed balance sheet with legacy products.
- Growth will be required to deliver more stable return on equity (ROE).

Regulation will continue to influence the market

- Regulators are expected to respond to rapid developments in the sector with the introduction of new rules, especially in the areas of digital assets, climate, and financial inclusion.
- Regulatory convergence is increasingly desired by central bankers and could have a major impact on competition and market strategies.

Short-term responses

1 Divestment of noncore assets

Companies could consider divesting underperforming loan portfolios and noncore divisions to raise capital and improve efficiency.

2 Technology-led business transformation

Investments and acquisitions of new technologies (e.g., digital payments, e-trading platforms) will be critical to position banks to compete in the future.

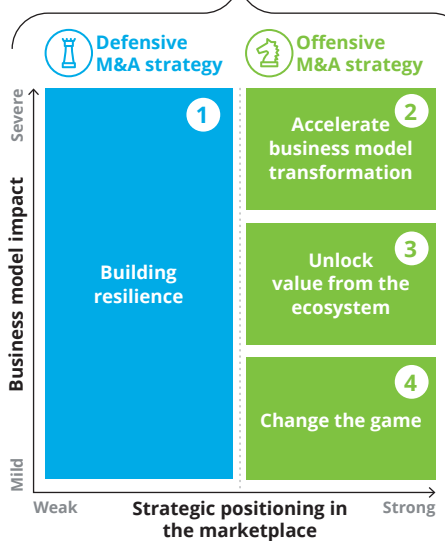
Stakeholders demand ESG commitments

- Increased scrutiny from clients, regulators, investors, and employees on companies' ESG commitments will affect business models for financial institutions.

Digital assets, blockchain technology, and cybersecurity are increasing in importance

- The introduction of new, disruptive products and technologies has led to banks investing heavily in new technologies and creating alliances with partners that have broader digital capabilities.
- Banks are shifting toward integrated platforms and cloud solutions to improve cybersecurity and enhance analytical capabilities.

CEO priorities



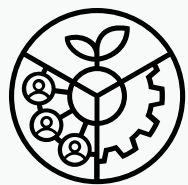
Medium-term responses

3 Cross-selling opportunities

Banks need to establish alliances outside of their core sector with players from technology, retail, health, and others, to cross-sell new services to a wider customer base, introduce new capabilities, and improve utilization of their current assets.

4 Growth investments

Banks also need to consider acquiring high-growth, innovative businesses in areas like cybersecurity, fintech platforms, blockchain, AI, and others in adjacencies that could, in time, become the new core.



Investment Management

Forces shaping 'new normal' conditions

Shifts in customer demand are driving new business models

- Customers are increasingly demanding specialized and value-add services.
- Firms are using digital channels and process automation to enhance client interactions.

ESG will affect asset allocation

- The focus on ESG will affect investment allocation decisions, investment transparency, regulatory reporting, and product marketing decisions. It will also likely drive product innovation in this segment.

Regulators are focusing on customer protection

- Regulators are likely to focus on increased client protections in areas such as data privacy, fee transparency, product unbundling, and ESG offerings.
- Lack of alignment could result in regulation asymmetry across jurisdictions.

Performance pressures are affecting allocations

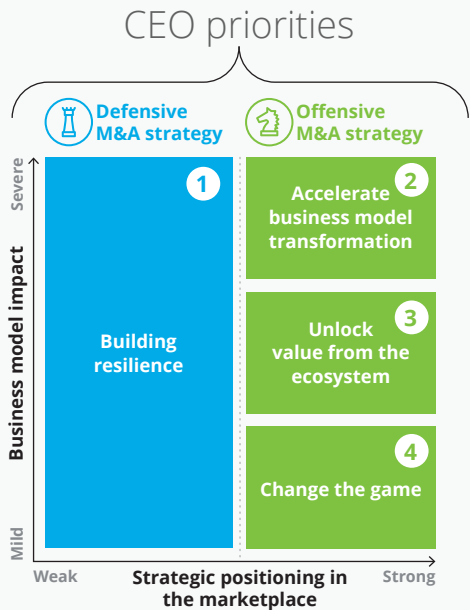
- The alternatives market has gained wide acceptance as it offers portfolio diversity and higher returns. This is placing further pressure on allocations and integration with traditional asset classes.

Demand for digital assets will require new capabilities

- Increasing interest in digital assets (e.g., crypto, non-fungible tokens [NFTs]) requires firms to develop or acquire new technologies and product offerings.
- These new offerings will also increase the importance of cybersecurity capabilities.

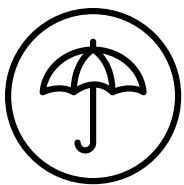
Short-term responses

- 1 Consolidation**
The sector is ripe for further consolidation, and in recent months, major players have been rapidly consolidating in response to falling fees and lack of growth.
- 2 Bolt-on capabilities**
Investment management firms are pursuing M&A to acquire new capabilities such as ESG investment specialization and technologies such as automated portfolio platforms (robo-advisers).



Medium-term responses

- 3 Nontraditional alliances**
Firms need to consider alliances outside of their core activities to expand their current client base, skills, and product offerings.
- 4 Future portfolio**
Firms also need to consider acquisitions of high-growth, innovative businesses in adjacent growth areas such as crypto funds, NFTs, crypto asset management platforms, and others.



Insurance

Forces shaping 'new normal' conditions

Reduction in property and casualty (P&C) business volumes will drive innovation

- Reduction in traditional volumes and pricing pressures are forcing P&C insurers to focus on innovative offerings such as usage-based insurance and sensor-enabled analytics.

ESG is more than a 'brand' play

- For insurance companies, ESG principles will underpin the new emotional contract.
- Insurance companies are uniquely placed to influence ESG mandates on global businesses given their role in underwriting industrial activities for other companies.

Short-term responses

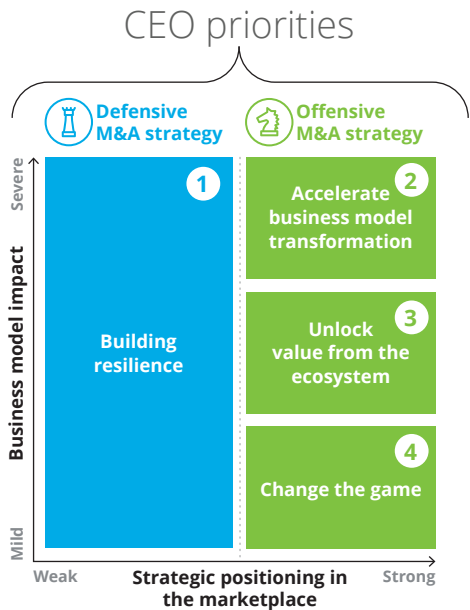
- 1 Portfolio rebalancing**
Market uncertainties resulting from geopolitical conflict and the need for capital optimization may prompt insurers to divest noncore assets and exit underperforming markets.
- 2 Market consolidation**
Costs of legacy business models and operating pressures are likely to drive consolidation in the market in order to capture economies of scale and accelerate transformation by investing in digital assets and analytics capabilities.

Customer-centric business models

- Customers are increasingly expecting an elevated customer experience, forcing investment in analytics and new product development.
- Convergence of insurance with digital health platforms is giving rise to new customer product categories and untapped market segments.

Emerging talent model

- Pressure on growth is forcing insurers to develop innovative operational solutions.
- This is leading to investment and hiring of skilled workforce in new areas such as digital, cloud, automation, risk controls, and customer analytics.
- Insurers need to foster a flexible and agile workplace culture for such fresh talent to thrive.



Medium-term responses

- 3 New alliances**
Insurers could actively look for partnerships in the technology, health, and communication sectors to address needs for a holistic solution.
- 4 InsurTech segment**
After years of investment and scaling up, the InsurTech sector is at a stage of maturity where consolidation is to be expected; insurers could also focus on the new segment of InsurTech that uses third-party data to disrupt underwriting and pricing.

Technology, Media & Telecom

Observations

Technology, Media & Telecom (TMT) closed with \$533B worth of deals in 2023, a decline of 39% in value, while volumes were stable.

North America was the most active region for TMT deals, with \$279B worth of activity in 2023. Europe was at a distant second, at \$138B.

Among the subsectors, Technology with \$357B deal value and 12,610 deals accounted for 67% by value and 82% by volume of the overall sector M&A activity.

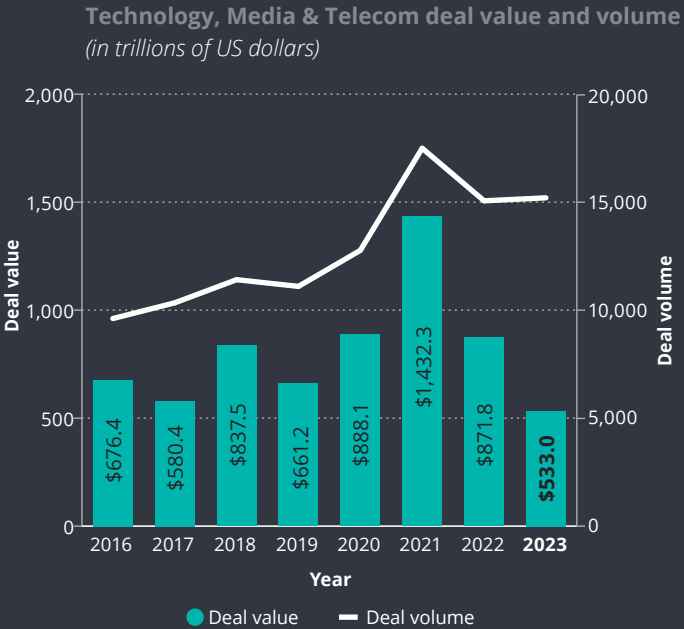
Private equity investors were most active in the Technology subsector, with deals worth \$186B.

The Media subsector witnessed a 44% increase in deal value, driven by large and megadeals. Private equity interest in publishing companies significantly contributed to this rise.

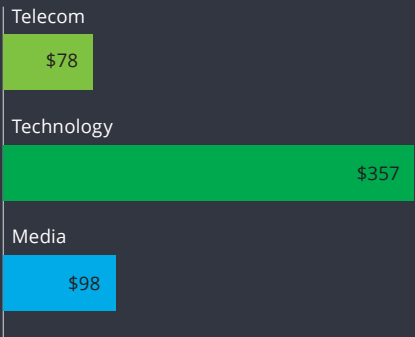
Software M&A witnessed an unprecedented decline of 43% in deal value, while IT Consulting & Services deal value declined by 44%. Tough macro conditions and lower spending on technology has severely impacted tech acquisitions.

A tough regulatory environment has already impacted big tech M&A, and 2024 is also likely to witness scrutiny of alliances/ partnerships on competition grounds.

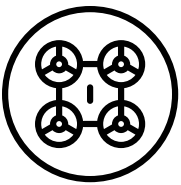
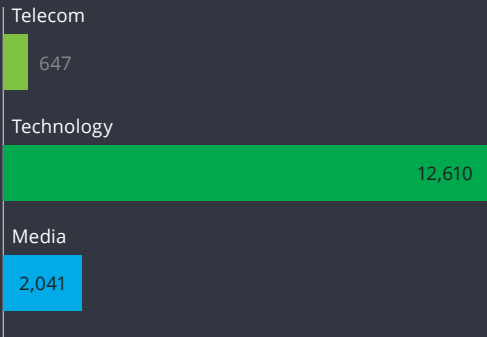
With pressure on profits, the Media industry may favor consolidation and divestitures of loss-making units.



Deal value by sector (2023) (in billions of US dollars)



Deal volume by sector (2023)



Technology

Forces shaping 'new normal' conditions

Data sharing creates value but raises security concerns

- Cloud and digital transformation have led to data sharing within and across companies.
- Increased concern around data privacy and security creates a headwind for new business models.

Semiconductor chip shortage likely to last through 2023

- Digital transformation is driving demand for chip designs with innovative technologies.
- This increased demand, coupled with the pandemic, has resulted in a supply shortage likely to last until 2024.

Short-term responses

- Consolidation across the cloud value chain**
Technology companies need to improve their competitive positioning through holistic platform solutions as opposed to point-based solutions. This could drive M&A consolidation across the cloud value chain and supplier base.
- Specialist software vendors**
Scaled HR and other ERP specialist technology companies may look to expand their offerings to adjacencies such as ESG, mental health, and well-being.

Flexible working is forcing companies to innovate

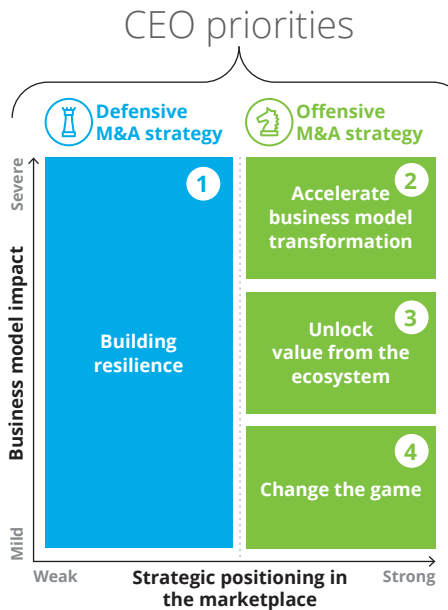
- ERP, finance, HR, and other specialist software companies are becoming more strategic and less administrative.
- Businesses will need to innovate on functionalities and protection as remote working becomes more prevalent.

Green technology

- The ICT sector is under pressure to reduce emissions and make its products more sustainable. This is likely to spur greater investments in green data centers, fresh product design, and other sustainability areas.

Cross-environment integration and use of AI are driving investments

- Leading technology companies are investing heavily in creating interoperability across cloud and on-prem IT environments.
- AI is being used in IT operations (AIOps) to orchestrate workloads and automate issue detection and resolution.



Medium-term responses

- Proliferation of alliances**
Technology is driving innovation across all sectors, and technology companies could explore alliances and JV models as an alternative pathway to access opportunities arising from technology-enabled convergence across sectors.
- Frontier investing**
The technology sector is likely to drive innovation through investments in green data centers, material science, spatial computing to drive augmented reality/virtual reality, AI, quantum computing, and many others.



Media & Entertainment

Forces shaping 'new normal' conditions

Competition in D2C could drive spending on exclusive content creation

- Proliferation of streaming platforms is resulting in increased churn, forcing providers to tailor content and pricing models.
- Saturation in the US market is driving streaming providers to push further into international markets.

Data integration should create value

- DTC content creates the ability for companies to gather additional customer information.
- Data integrations across different offerings will enable a unified view of the customer that will drive content recognition and increase ad value.

Generational divide regarding alternative types of entertainment

- Gen Z has a higher preference for video gaming and user-generated content over traditional TV and movies.
- Increased preference for user-generated content changes consumption patterns and gives rise to new platforms.

Socially conscious media

- The media sector is directly exposed to shifts in social trends, and there is heightened customer pressure for the sector to become, as well as to produce content that is, socially aware, equitable, and diverse.

Metaverse to drive convergence in content

- Media and entertainment companies will be central to the metaverse, which will result in a convergence in traditional video content, video games, technology, and advertising.
- Immersive franchises with owned intellectual property will be able to create deep engagement and new monetization mechanisms.

Short-term responses

1 Customer retention

Companies could use M&A activities to secure premium content, acquire and retain customers, and bolster technological capabilities.

2 Investment in new capabilities

To capitalize on the disaggregation of traditional distribution networks resulting from migration to D2C media, M&E companies should acquire new capabilities to allow them to capitalize on their new relationship with the customer.



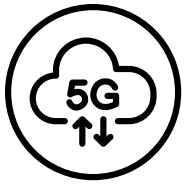
Medium-term responses

3 Alliances and partnerships

Emerging areas such as the metaverse are increasingly dependent on multiparty marketplaces and ecosystems that span content creators, platforms, and consumers. The need for scale across customers, platforms, franchises/content, and technology is likely to drive landmark partnerships in the future.

4 Future portfolio

Advances in technologies, such as AI and machine recognition, are rapidly changing the media production and consumption landscape and are likely to spur greater investments in these areas.



Telecom

Forces shaping 'new normal' conditions

Governments driving the growth of global fixed wireless access (FWA) connections

- Regulators now view wireless as an acceptable alternative to wired, and governments have increased funding of broadband, resulting in more operators considering 5G-enhanced FWA.

5G gaining traction

- Global carriers are expected to show distinct 5G performance improvements in the coming months.
- Improved performance will result in increased demand for 5G-enabled devices and service.

Short-term responses

1 Competition for telecommunications infrastructure assets

Both financial and strategic buyers are competing for infrastructure assets; carriers will likely divest nonpriority assets, potentially including large-scale data centers, to fund other initiatives (e.g., 5G, IoT).

2 Telecom companies will continue to divest media assets

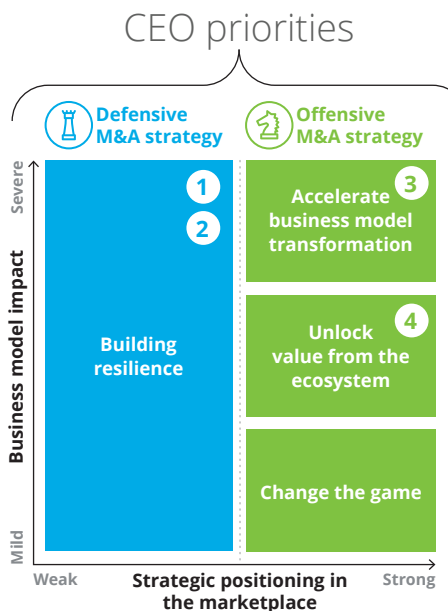
Following a run on acquisitions of media companies, telecom companies are refocusing on core capabilities.

Subscriber growth and smartphone adoption likely to be sustained at elevated levels

- Underpenetrated demographics (under age 13; 50 years or older) are likely to gain net new subscribers and increase use of smartphones to facilitate remote learning and video calling.
- Government subsidies are providing for connectivity needs.

Metaverse growth and cloud migration to drive traffic volume increase

- Telecommunications infrastructure and service providers are likely to benefit from greater traffic (20x by 2032) across networks, driven by metaverse applications; however, the ability to monetize increased traffic remains challenging.



Medium-term responses

3 Adoption of 5G and cloud

Greater adoption of 5G should drive new products and services and, in turn, could spur telecoms to acquire new capabilities, such as ones to make cloud migration more feasible, and accelerate adoption of multi-cloud environments.

4 Partnerships

Telecom companies may increasingly partner with their peers as an alternative to M&A to drive operational efficiency and increase investment in areas like fiber to the home (FTTH). In addition, they should also explore cross-sector partnerships with the health and financial sectors to drive new consumer opportunities.

Conclusion

In the past decade, leaders had to navigate their companies through momentous change, from the great financial crisis to the pandemic. The months and years ahead do not promise an easy ride; the ongoing geopolitical tensions and economic challenges will likely require corporate leaders to display vision and decisiveness. They may be expected to inspire their organizations to embrace change in a way that opens new strategic possibilities and inspires trust.

The importance of M&A as an enabler of change has been demonstrated by the record-breaking activities during one of the most difficult times in business history. Looking ahead, we anticipate traditional M&A, as well as alternatives such as alliances and partnerships, to not only play a pivotal role but also evolve to meet new expectations and conditions. Successful companies will heed the lessons from the past while remaining resolutely focused on the horizon.

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