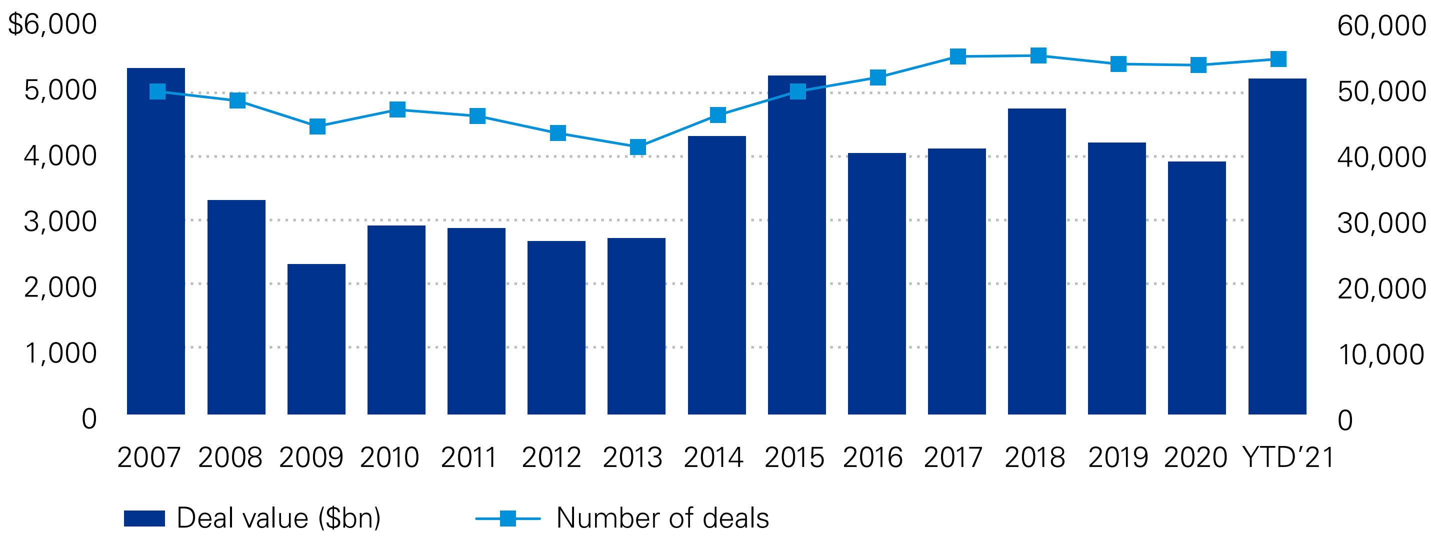
2021 was a blowout year for global M&A

2022 could be even bigger—in a KPMG survey, business leaders expect deal making and valuations to rise again

Global mergers and acquisition activity in 2021 easily surpassed the pre-pandemic level and nearly matched the peaks of 2015 and 2007 (see chart). And M&A is poised to climb higher in the year ahead. That's what more than 350 U.S. business leaders told KPMG in a new year end M&A survey. With easy access to capital, low interest rates, and a recovering global economy, deal makers around the world announced $5.1 trillion worth of M&A transactions in 2021, up from $3.8 trillion in 2020 and the highest level since 2015.[1]

Back to peak deal making



[1] 2021 data through November 15, 2021. Source: CapIQ, Refinitiv, Pitchbook

Global Deals – YoY deal trend

The U.S. deal market was particularly hot, accounting for $2.9 trillion in transactions in 2021, up 55 percent from $1.9 trillion in 2020, when the value of announced U.S. deals fell by 18 percent. In 2021, the U.S. accounted for nearly 60 percent of all global deals (in announced value), up from less than 50 percent in 2020.

Deal valuations continued to rise to new highs in 2021 as well. Looking forward, more than 80 percent of executives say they expect valuations to rise further in their industries in 2022. More than a third of executives expect valuations to climb by at least 10 percent in 2022.

Despite soaring valuations, business leaders say they will continue to make deals in 2022. "Based on the volume of new pitches in November and December—transactions that would come to market in Q1 and Q2 of 2022—there are no signs of a slowing deal market," says Philip J. Isom, Global Head of M&A at KPMG. "Certainly, some buyers have resisted moving up at the same pace as multiples have risen," Isom observes. "But most investors have limited time horizons to invest in, so they may be willing to reach further on price than they have historically."

Deal making will continue, executives in the KPMG survey say, because they need to remain on the offense with the competition, they have access to record amounts of cash, and they feel pressure from investors to raise their own valuations. Only 7 percent of executives in the KPMG survey say they expect deal volume to decline in their industries in 2022.

Another impetus for deal making now: the labor shortage. In a super-tight labor market, employees can be choosy—4.2 million workers quit their jobs in October[2] and acquiring talent is becoming a more important aspect of acquisitions. In fact, one third of executives surveyed say they want to use M&A to acquire more talent in 2022. "The reality is that the shortfall in skilled labor is an immediate issue, so many CEOs are looking at M&A as a near-term solution," said Isom.

Increasingly, companies are pursuing "transformative" deals that change business and operating models, such as traditional industrial or financial services companies buying tech companies to digitize their businesses. "The key attributes firms are looking for are ways to improve their technology platforms and resources," says Carole Streicher, U.S. Deal Advisory and Strategy Service Group Leader for KPMG. "The aim is to increase efficiencies and contribute to having more agile workforces."

Towering valuations are also changing the way companies approach and execute deals. To justify the high transaction cost, companies need to pursue "extraordinary" synergies—moving far beyond the routine cost-cutting that is possible when two organizations combine. This includes finding new ways to grow revenue and transform business operations. Seventy-two percent of executives say that, to unlock more value from deals, they are pursuing extraordinary synergy targets and 58 percent say this entails a significant transformation of operating models.

Key M&A trends in 2022

In the KPMG survey, business leaders say that their appetite for M&A could be limited by several factors in 2022, including high valuations, inflation, and a lack of attractive targets left to buy. Another issue for some investors is the possibility of a rise in the cost of capital and potential tax increases.

M&A patterns in 2022 are likely to be affected by a combination of factors, both macroeconomic and microeconomic. The ones executives expect to have the greatest impact on M&A deal activity are: high valuations (61 percent say so); economic variables, such as overall liquidity (56 percent); fierce competition for a limited number of highly valued targets (55 percent); and supply chain factors (52 percent).

More than half of executives will be looking to acquire entire companies to help diversify their commercial portfolios. Almost 60 percent are seeking access to new products, services and technologies, executives say.

[2] Source: Eli Rosenberg, "4.2 million Americans quit their jobs in October as workers continued to search for better opportunities," The Washington Post, December 8, 2021.

Other key trends to watch for

Highly active private-equity players

Private equity players were an increasingly important factor in 2021 and will continue to be in 2022. "Based on recently raised funds, the amount of dry powder and new funds available, we believe that the growth in acquisitions by PE firms will continue to play a big role in 2022," Isom says. In 2021, the prospect of an increase in corporate capital gains taxes helped bring some corporate assets to market. This sparked a strong rebound in buying by PE funds after the pandemic had depressed PE activity in 2020. U.S. PE transaction value rose more than 55 percent in 2021.

Bracing for tighter liquidity

Investors and corporate leaders are looking at how the Federal Reserve will respond to inflation. The Fed has signaled that it will soon reduce "quantitative easing" and hikes in the discount rate are widely anticipated. Expectations of rate increases may prompt acquirers that rely on debt financing to move sooner to make deals, rather than later. However, overall impact of gradual rate increases may not be significant; when interest rates rose between 2016 and 2019, both deal volume and value rose.

Digital transformation accelerates

Businesses have been focusing on the digital transformation of their operations over the past several years, and the pandemic has increased the speed and scale of the change. We expect the need for digital and business transformation to continue to be an important driver of deals across all sectors.

Environmental, social and governance goals to the fore

The ESG agenda, now climbing toward the top of CEOs' objectives, may generate a lot of deal activity going forward, as businesses look at their ecological footprint and consider purchasing, rationalizing, or divesting assets. Investors are likely to regard ESG goals as a critical element in building a more sustainable business that can better adapt to potential market shifts.

About the survey: KPMG surveyed 350 U.S. executives in November–December 2021. All were involved either directly or indirectly with deal making. Almost three quarters work at public companies and 48 percent are at enterprises whose annual revenue exceeds $10 billion.

Conclusion

For deal makers, 2022 will bring many opportunities and increasing challenges, due to high valuations, deal complexity, and the competition for high-quality assets. "Clearly identifying target parameters as part of an M&A strategy will help to filter the tremendous volume of opportunities," says Isom. "Outlining the constraints upon initial evaluation of opportunities, including required diligence, resource availability, and funding sources, will position acquirers to chase opportunities within their capabilities, rather than being caught up in the deal frenzy."

Contact us

Philip Isom
Global Head of M&A
Capital Advisory Services Leader
M: 312-404-2975
E: pisom@kpmg.com

Carole Streicher
National Service Group Leader
Deal Advisory and Strategy
M: 312-543-8662
E: cstreicher@kpmg.com