# 2023 M&A OUTLOOK

ANSARADA

COVER IMAGE
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## Q&A with twelve top Global M&A Dealmakers

# Four key takeaways for dealmaking in 2023

Investors' nerves were tested in 2022 and they will need to keep their wits about them over the next 12 months. The effects of monetary tightening in capital markets are immediate, however these more stringent conditions can take time to fully manifest in the real economy in the form of higher unemployment and weakening demand.

Central banks around the world will continue to closely monitor inflation metrics to decide for how long they need to stay on their current course. Operational performance will be under pressure and financing will remain harder to access amid higher interest rates and lower growth. This should see deals stabilize at lower levels.

In what remains a challenging environment, acquirers are assessing risks more intently than ever and stress testing their investment theses. At the same time, authorities are paying closer attention to deals and increasing their enforcement scope. Corporates, financial sponsors and deal targets alike should keep the following in mind and be prepared for deal timelines to be more drawn out:

## 01

### Comprehensive and incisive due diligence

Dealmakers are running the rule over companies with renewed intensity. Operations are being scrutinized for potential fragilities and weak supply chain links. Buyers are looking for resilient financial performance and businesses that have pricing power and a firm handle on elevated input costs. IT due diligence is also becoming more critical, from both a performance and a security perspective. Companies that can proactively demonstrate these strengths with transparency will be in high demand and benefit from smoother sale processes.

## 02

### Sanctions exposure

Geopolitics were thrust to the fore in 2022 thanks to Russia's invasion of Ukraine. Cross-border transactions have been complicated by potential sanctions exposure and investors have had to unwind and review ownership structures for any risks. Indirect ownership may not always be immediately obvious and adds to the depth and complexity of due diligence reviews. Investors will need to continue assessing the scope and nature of target group operations and their shareholder structures, while staying on top of the changing reach of sanctions regulations and guidance.

## 03

### Emergent merger enforcement

Geopolitics are also playing into merger controls. Governments have been strengthening their powers to scrutinize investments on national security grounds to protect their interests, some jurisdictions implementing new regimes and others strengthening existing ones. Most EU countries have now embedded active foreign direct investment screening mechanisms. In the US, CFIUS remains as hawkish as ever towards inbound Chinese investments.

It is not just foreign investment that is under the microscope. The European Commission and national authorities continue to intensely scrutinize deals on competition grounds, while in the US the Department of Justice and Federal Trade Commission have been demonstrating aggressive enforcement. There are also discussions and consultations in some Asian jurisdictions about introducing merger regimes, as certain countries consider bringing their competition law in line with international best practice.

## 04

### ESG as a value driver

ESG has become a core ingredient in the due diligence mix. Investors are not only risk assessing basic compliance, but looking to identify material progress and a willingness to engage in areas including energy efficiency, emissions, supply chain sustainability and social aspects such as diversity and inclusive career progression. High-profile blow-ups in 2022 have also brought basic governance back into the spotlight. Without the foundations of rigorous board oversight, as well as basic financial and other risk controls, unseen malfeasance can take root. Any governance deficit or lack of senior management integrity will also mean that ESG reporting is more likely to be unreliable. Investors now see ESG as a point of differentiation between companies and a means of driving equity value from their investment.

# Jacqueline Chan

Partner
Milbank

Jacqueline Chan, a partner at Milbank's Singapore office, discusses the challenges facing dealmaking in 2022 and how the energy transition is fueling M&A in Asia

**There has been a downswing of activity in 2022 compared to the historic highs of the previous year. Do you expect deal activity to continue to trend down in 2023? What about in APAC specifically?**

It has been interesting. I think 2021 was a bit of a standout year for everyone in terms of M&A. Anecdotally, in 2022 many are talking about a slowdown due to various pressures. The war in Ukraine has affected European M&A a little more than some other regions, but has led to geopolitical risks for all. Another factor has been inflationary pressure and the need for central banks to start raising rates to counter inflation – this started during the COVID period but was exacerbated by the war in Ukraine. All of this has essentially put a halt to capital markets, which has knock-on effects on acquisition finance as rates tend to go up. And, because IPOs are not a viable exit route at the moment, this has led to a slowdown in the decision-making around buyouts and investment.

Most markets have witnessed a slowdown in deals being announced. As an M&A practitioner, I recognize that there are still many deals in the pipeline. It remains to be seen how many deals come to fruition this year.

**Have you noticed any change in the type of acquirers this year?**

We have noticed a change in the participants in M&A, particularly in Asia. Private equity folks are slightly less active at this moment. Due to the softening on valuations and the increase in the cost of debt, they are being more cautious. Meanwhile, strategic buyers can access longer-term capital, have more synergies and face less competition. Strategic buyers are getting more active in the marketplace. That's everyone from SK in Korea to Mitsui in Japan, as well as conglomerates all across the spectrum, like Ratch Group or PTT Group in Thailand and Adaro in Indonesia.

**Are there any sectors that you think will be especially active in terms of M&A in 2023?**

There has been a shift towards energy transition and renewables for sure. Infrastructure also has been much more active. We're observing PE firms, strategic buyers and infrastructure funds all focusing much more on the energy transition. Three or four years ago, there were significantly fewer deals of that type; we now see joint ventures, as well as M&A and investments into existing platforms.

Infrastructure is very active, whether it's logistics, water, transport, and especially digital. But there are only so many data centers and tower companies left to buy in Asia. It seems that the idea is to acquire what you can to execute platform deals and capture the aggregator multiple.

On the other hand, tech has taken a bit of a downturn this year. There is a lot of discussion as to whether this is affecting early-stage tech as much as it is affecting late-stage companies. I think this may be true – pre-IPO rounds are definitely down – but we also are seeing less early-stage activity in the market. And there are no exits at the moment for tech. Many appear to be waiting to see how that goes, I think.

Other sectors that have been attractive for investors thus far, like health and education, continue to be so, however Asia has a limited range of targets available in those sectors.

**Is the shift to industrials and renewables a result of long-term shifts towards the energy transition, or is it fueled by a shorter-term turn towards stable, reliable returns due to slowing growth?**

I think that it's twofold. Firstly, Asia used to be active for traditional PE sectors like consumer, healthcare, education and digital. I think many still hold as attractive platforms, but they're harder to do in Asia, especially because of COVID.