

Cross Border Capital Markets Report:

How Will the US Economic Downturn Affect M&A Activity?

August 2022

Real GDP in the USA decreased by 0.9% in Q2 of 2022 according to the Bureau of Economic Analysis. This follows a 1.6% decrease in 2022 Q1, resulting in the USA economy falling into recession. The USA is not alone, with developed nations like Germany, Japan, and an array of others experiencing similar contractions according to Reuters.com. The global economy has been impacted by numerous exogenous shocks over the past 30 months, including lockdowns, supply chain crises, stimulus packages, and oil price hikes among others.

The economic conditions will undoubtedly affect capital markets, but the outcome remains uncertain. The reduction in liquidity could shrink capital market activity. Alternatively, a slowing business cycle could result in a buyer's market, allowing for aggressive consolidation and roll-up strategies. This article will investigate the difference in capital market activity between 2021 H1 and 2022 H2 to determine the effects of the downturn in Western markets.

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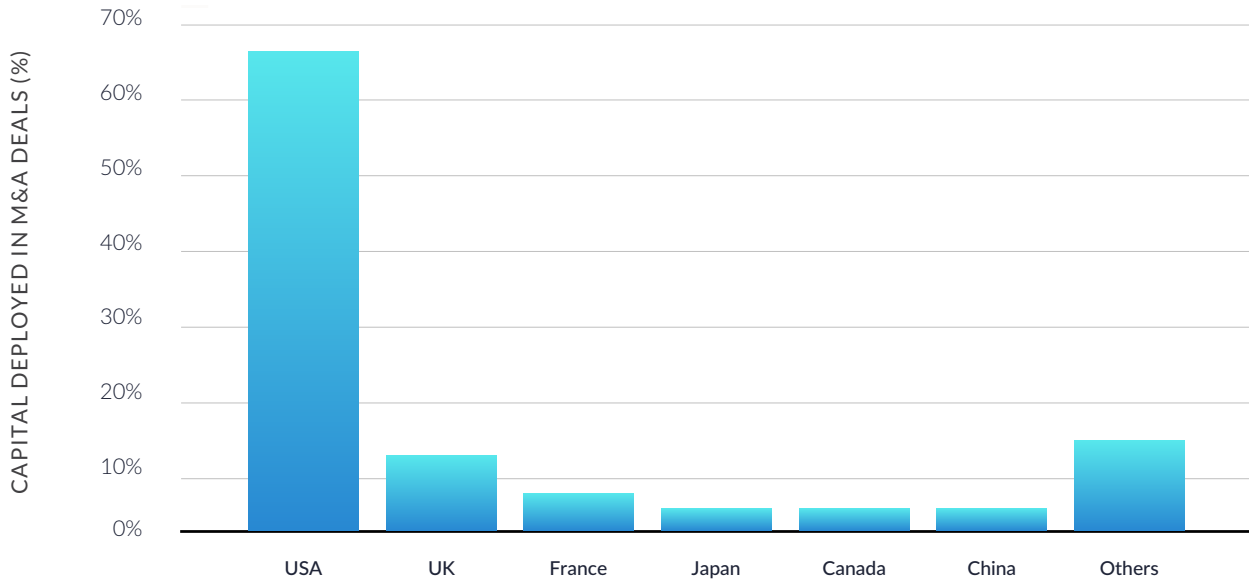


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Why the USA Remains Critical to Capital Markets

CAPITAL DEPLOYED IN M&A DEALS
BY INVESTOR REGION (SINCE 2020)

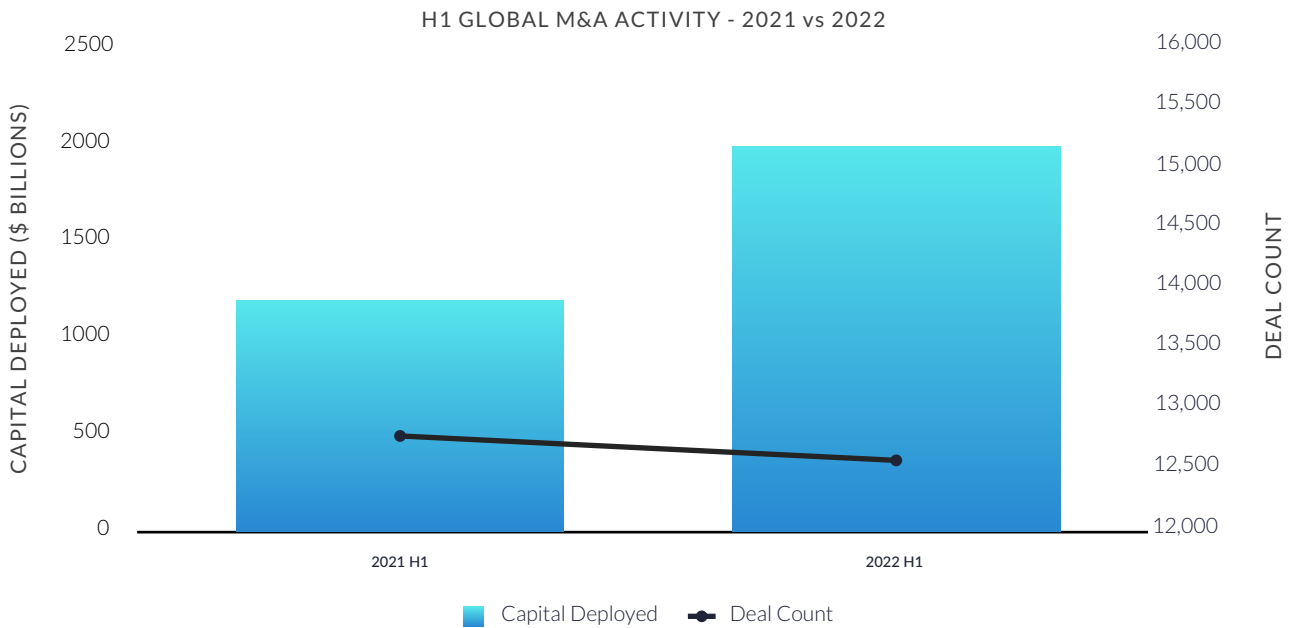


Source: PitchBook Data, Inc.

- The USA has contributed 64% of capital deployed in M&A deals since 2020, with a total spend of \$4.33 trillion. Businesses in the UK, France, and Japan conducted significant M&A deals within the period with 10%, 5%, and 3% of capital deployed, respectively.
- Over the same period, 22,178 announced deals have been conducted by companies from the USA.
- The economic downturn in the USA and major Western economies will impact capital markets in 2022 and beyond.



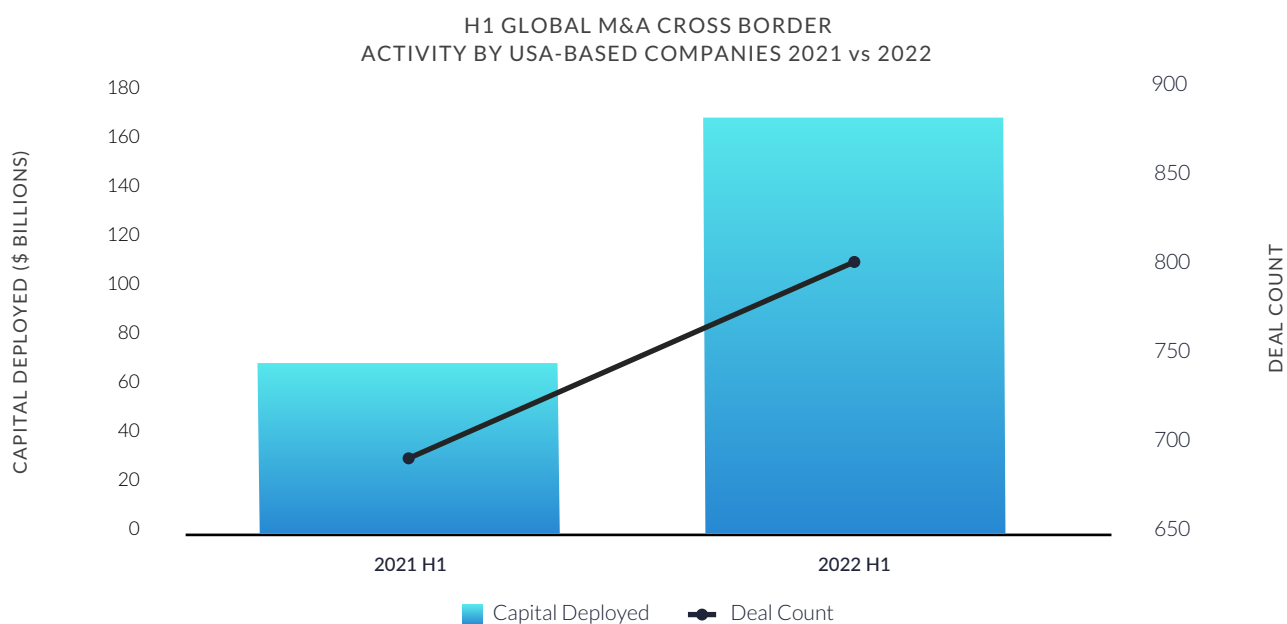
Global M&A Market Overview



- Capital deployed in M&A deals globally increased by 67% from 2021 H1 (\$1.15 trillion) to 2022 H2 (\$1.91 trillion). Deal count within the period has remained stagnant with a 3% decrease between 2021 H1 (12,692 M&A transactions) and 2022 H1 (12,302 M&A transactions).
- Median deal size increased from \$19 million and \$24 million in 2021 Q1 and Q2, respectively, to \$31 million and \$43 million in 2022 Q1 and Q2, respectively.
- The highlights an increased appetite for acquisition despite economic downturns, as role-up strategics become increasingly aggressive leading to larger deal sizes. Challenging business conditions would drive the supply side demand while lower valuation would lead to an increase in demand for acquisitions.



Cross Border M&A Deals Conducted by USA-Based Companies



- Capital deployed in cross-border M&A deals by USA-based companies increased by 59% from 2021 H1 (\$69 billion) to 2022 H2 (\$169 billion). Deal count grew consistently by a 13% increase between 2021 H1 (706 M&A transactions) and 2022 H1 (813 M&A transactions).
- Median deal size increased from \$53 million and \$46 million in 2021 Q1 and Q2, respectively, to \$70 million and \$150 million in 2022 Q1 and Q2, respectively.
- The data suggest significant growth in cross-border M&A activity by USA-based companies. The degree of competition in domestic markets as well as more affordable valuations in international markets will continue to drive future cross-border transactions.

M&A in the first half of 2022 has grown significantly, with a 67% increase on 2021 capital deployment in the sector over the same time period. The true effects of a recession remain unknown. The data suggest that firms have capitalized on lower valuation multiples and challenging economic conditions to execute inorganic growth strategies. Retained profits achieved in 2021 are likely to be used to execute acquisitions. Liquidity within the market will continue to shrink as global monetary policies tighten, so it is uncertain whether the surge in M&A activity will continue. Current economic conditions present the ideal buyer's M&A market.