BCG

Weekly Brief

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What Dealmakers Are Thinking

In M&A, the past does not always predict the future. Dealmaking is a cyclical activity influenced by fundamental factors, such as valuations, volatility, and interest rates, as well as general business confidence—especially the sentiment of potential buyers and sellers. Historically, analysts have done a good job of understanding the fundamentals but not overall deal sentiment.

The BCG M&A Sentiment Index

Remember the summer of 2020 in the depths of the pandemic? Dealmaking was in a deep freeze. Just a few months later, the deal economy was in overdrive. Who would have predicted that?

If it had been in existence, the BCG M&A Sentiment Index would have indicated rising M&A. In August 2020, the index had a value of 107, and it rose to 121 by October 2020, foreshadowing the surging deal volume that occurred later in the year and in early 2021. A value of above 100 indicates that deal activity in the next six months will likely be above the ten-year average.

My colleagues in BCG's Corporate Finance & Strategy practice released the M&A Sentiment Index last week to help companies understand where deal activity is headed. It combines analysis of 15 fundamental drivers and sentiment to generate a predictive view of future dealmaking helpful to CEOs, CFOs, and investors.

The index is based on decades of BCG's M&A research and insights from our database of more than 900,000 deals. It captures dealmaker sentiment by analyzing more than 10,000 corporate communications, such as the transcripts of earnings calls. The index has also been rigorously back tested against historical data.

Slow Times Can Still Be Busy Times

What is the index saying today? The index has recovered from a low of 62 in November 2023 to reach 78 in both May and June 2024, suggesting increased but still below-average activity for the next six months. By region, M&A sentiment is highest in Europe and lowest in Asia-Pacific. And by sector, sentiment runs higher in energy, materials, and technology, media, and telecommunications, but lower in industrial goods.

A subdued M&A market over the next six months does not mean executives and dealmakers should be complacent. In more and more of my conversations with CEOs, they mention their preparation for M&A moves in the not-too-distant future. As we have reported over 20 years in our annual M&A reports, downturn deals outperform boom-time deals in long-term value creation. They occur in lower-multiple markets with less competitive pressure and more time to kick the tires.

At a minimum, companies should be preparing to pounce when the market turns, or the right target becomes available.

- **Portfolio Strategy and Strategic Clarity.** CEOs should clearly define what they hope to accomplish through M&A.
- **Financial Preparedness.** A strong balance sheet, access to financing, and financial agility allow companies to move quickly when opportunities arise.
- **Dealmaking Capabilities.** Companies can enhance in-house dealmaking and post-merger capabilities. Swift and effective integration, especially of people and operations, is often what sets successful deals apart.

The global economy is undergoing a fundamental transformation driven by digitization and AI/GenAI, the new realities in globalization, the energy transition, and other forces. Dealmaking can help companies navigate these shifts more quickly than business as usual. Be prepared to move.

Until next time,

Christoph Schweizer
Chief Executive Officer

Further Reading

The BCG M&A Sentiment Index

The index provides a monthly update on dealmakers’ willingness to engage in mergers, acquisitions, and divestitures over roughly the next six months.

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M&A Insights H1 2024: The Recovery Continues

Dealmakers remain cautious amid economic uncertainty, concerns about inflation and monetary policy, and regulatory and geopolitical headwinds.

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