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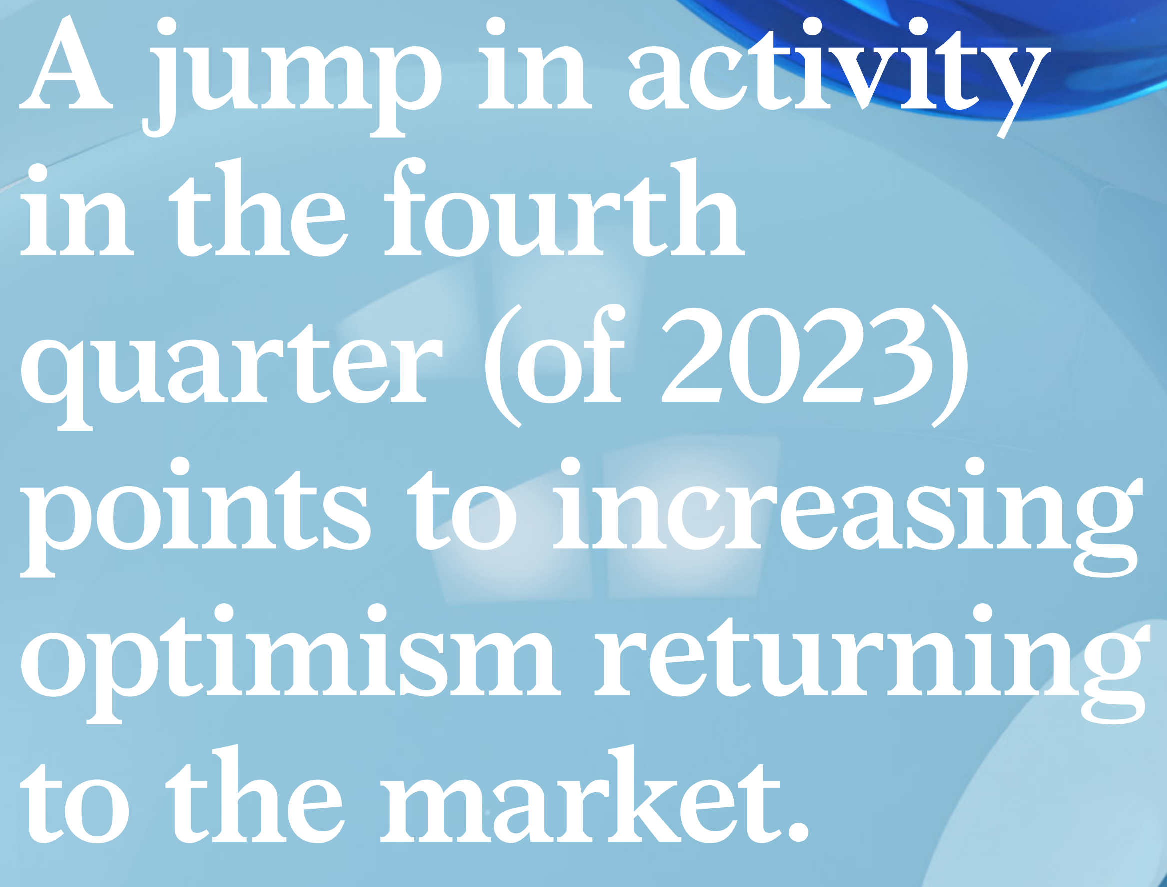
M&A practice

Top M&A trends in 2024

Blueprint for success in the next wave of deals

2024



A jump in activity in the fourth quarter (of 2023) points to increasing optimism returning to the market.

The following people were instrumental in helping to create this report:

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We are delighted to share our inaugural annual report on the global M&A market, *Top M&A trends in 2024: Blueprint for success in the next wave of deals.*

While the value of M&A activity fell for all of 2023, a jump in the fourth quarter—up 41 percent from the third quarter and 37 percent from a year earlier—points to increasing optimism returning to the market, along with a growing appetite to consider M&A as a means to advance strategy.

We are privileged to support our clients as they execute pivotal transactions that will transform their businesses. McKinsey partners with clients to maximize the success of their M&A activity across the deal lifecycle, from M&A strategy to integrations, divestitures, and JVs/alliances. We bring our clients unrivaled transaction and integration expertise, deep industry knowledge, a global network, and a focus on building institutional and executive M&A capabilities. The M&A perspectives we share here are built from this extensive experience and research. We are grateful to the extended group of colleagues who have helped compile the articles and analyses included here—but most important, we are thankful to our clients who trust us to support them on their M&A journeys.

This report offers perspectives for M&A leaders in a range of industries that we believe will drive dealmaking in the year ahead, as well as discussions on activities critical to delivering successful M&A transactions.

We hope you enjoy reading.

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Will 2024 launch a bright new era for M&A?

By Jake Henry and Mieke Van Oostende

Anticipating what could be an inflection point, many dealmakers are preparing for a surge—and new market requirements—in the year ahead.

M&A dealmakers have been on a wild ride. From the pandemic-fueled rout in 2020 to 2021's record-breaking recovery, followed by a steep decline in 2023, the global M&A market has offered something of a masterclass in volatility.

Toughened by these swings and successive macroeconomic, geopolitical, and regulatory challenges, many dealmakers are approaching the year ahead not with trepidation, but with a healthy dose of optimism. Yes, they just weathered an exceedingly difficult year for dealmaking. And yes, few can remember a time that was more challenging for M&A.

For all of 2023, global M&A activity dropped 16 percent from a year earlier, to $3.1 trillion.[1] This contrasts with other market benchmarks, such as the S&P 500, which climbed 24 percent last year on the wings of a handful of technology- and AI-driven stocks. A longer-term view shows the depth of M&A's trough in 2023. For example, in the US, the world's busiest M&A market, activity dropped to its lowest proportion of S&P 500 market value in 20 years.

With curves like that, we were not surprised to hear a provocative question at a recent conference: *"Is M&A dead?"*

Our answer is: certainly not.

M&A market durability

A variety of factors supports the global M&A market's durability. First, with the business landscape experiencing seismic shifts—ranging from the rise of AI to the growing importance of sustainability and the emergence of a more demanding, tech-enabled consumer class—CEOs across industries tell us that M&A is a more vital strategic lever than ever. Organic growth—which never compared well with the most effective M&A strategy—pales further when significant strategic shifts are called for. This is especially true when companies need to adapt quickly.

For example, our latest analysis of the "Global 2,000"—the world's largest global public companies—found that those making more than two small to midsized deals annually over ten years through 2022 delivered a median excess total shareholder return (TSR) of 2.3 percent. This programmatic approach outperformed all other M&A strategies, including organic growth, which

[1] Market results reflect deals announced (and not withdrawn) over $25 million.

actually destroyed value in the same period. Part of this success stems from actively managing portfolios. Programmatic acquirers are not just acquisitive; they also actively divest nonstrategic assets. In a McKinsey global survey on M&A, respondents from programmatic acquirers were more likely than others to say their organizations conducted divestitures in the past five years.

Strikingly, programmatic dealmakers with the most deals earned the highest returns. Seventy percent outperformed programmatic peers who made fewer deals. And the performance gap between programmatic acquirers and companies pursuing organic growth only widened during the COVID-19 years. Programmatic acquirers achieved 3.9 percent excess TSR in the past decade, up from 2.9 percent in the 2010s. Even with some of the lowest M&A volumes in recent years, our latest research shows that the case for programmatic M&A is stronger than ever (see "The seven habits of programmatic acquirers").

Cash is another important source of ballast. Unlike past markets, when private equity and principal investors drove much global M&A activity, in 2023 they fled to the sidelines, slashing their activity 37 percent to $560 billion, as they were spooked by high costs of capital, uncertainty about central bankers' plans, and regulators' more robust scrutiny of deals. (Indeed, the validity of this last source of uncertainty has been confirmed by the lengthening regulatory review process, which has extended on average by about 35 percent over ten years, through 2022, for the 100 largest global deals annually. Further, the proportion of companies undergoing long-term investigations in Europe and the US increased about 50 percent from 2017 to 2022.)

But private equity (PE) investors may not be so rare in the times ahead. Although they accounted for only 18 percent of deal activity in 2023, they are not likely to linger on the sidelines for long. Some funds will need to consider exit strategies and redeployments in the near term, and others, along with corporate dealmakers, may be aroused by the more than $2 trillion in undeployed capital as of the end of 2023. Although macroeconomic and geopolitical challenges could continue to temper PE interest, that mountain of dry powder nonetheless beckons—a temptation that will grow for PE investors and other dealmakers as they sense a return to greater market stability.

While we live in dynamic times, several factors point to a more favorable macroeconomic environment at this writing.

Higher interest rates have tempered the inflationary trends so worrying to central bankers; inflation now hovers just above 3 percent across the US, Europe, and Asia. Job growth has remained healthy, with US unemployment under 4 percent late last year, while the Eurozone hit historic lows of around 6.5 percent. Consumer spending has also remained robust globally, with US retail sales rising at an annual rate of about 4 percent from a year earlier. This improving picture has buoyed economists' hopes of a soft landing for the US economy—a sentiment shared by many investors who boosted stock market returns at the end of the year.

Although inflation fears have been receding, concern about geopolitical instability is on the rise. For example, late last year, 67 percent of respondents to a McKinsey survey cited geopolitical concerns as the top threat to global economic growth in 2024—the largest share identifying this as a top risk since shortly after the war in Ukraine began. Concerns about political transitions also emerged as a top risk to global economic growth.

These nearly 1,000 survey participants from a broad range of regions and industries remained largely positive about their own economies, with 46 percent expecting conditions in their home economies to improve in the next six months, and only 26 percent expecting them to worsen. But as the media remained riveted by wars and fractious political conditions in some countries, respondents' optimism about the global economy and their companies' workforce growth and profits ebbed a bit (see "Economic conditions outlook during turbulent times").

Analysts, meanwhile, are more sanguine about corporate prospects for 2024. We ended the year with analyst consensus of about 5 percent growth in revenue for the year ahead, with gains in EBITDA and net earnings of around 8 to 9 percent—a bounty that will not land evenly across industries, they believe (see "Who drove the returns in 2023?").

What we can learn from 2023 M&A market performance

The performance of various sectors and regions may indicate which areas of M&A are likely to recover most quickly from the global M&A market's ten-year low in 2023—a decline that followed eight years of mostly stable activity.

For all of 2023, global M&A value fell 16 percent to $3.1 trillion —a showing even weaker than the pandemic year of 2020. While the average deal size increased 14 percent, owing to a handful of large deals, the number of companies changing hands fell 27 percent from a year earlier.

With macroeconomic, geopolitical, and regulatory pressures all curbing exuberance, megadeals (over $10 billion) fell 17 percent to $705 billion, but maintained their 23 percent share of global deal activity.

Exhibit 1

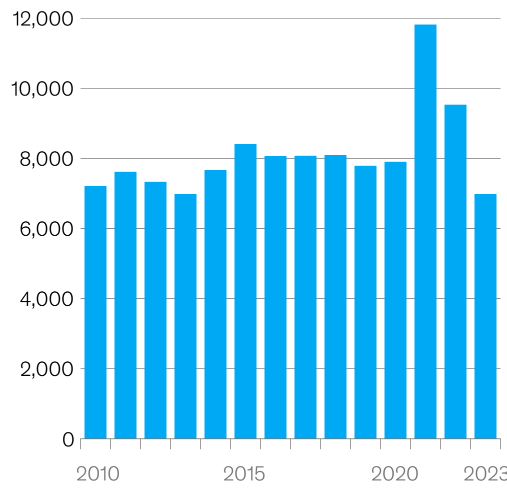
Global deal value and volume fell in 2023.

Deal activity,[1] 2010–23

Annual deal value, $ billion

6,000
5,000
4,000
3,000
2,000
1,000
0
2010
2015
2020
2023

Annual number of deals



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

The Americas, buoyed by surprisingly strong economic growth and employment figures, remained the most active market for M&A—accounting for more than half of global activity in 2023. Deal value fell 7 percent to $1.6 trillion, a decline that was softened by the activity of programmatic acquirers and a handful of megadeals. Taken together, the value of deals in the Americas for all of 2023 only slightly trails the pandemic-era 2020 total of $1.7 trillion.

Also boosting activity in the Americas was dealmakers' continuing propensity for large deals, as the region claimed 11 of the world's 20 largest deals announced in 2023. Indeed, average deal size jumped 38 percent in the region, to approximately $670 million, even as the number of deals in the Americas fell 32 percent.

M&A markets in Europe and the Middle East (EMEA) had a far rougher 2023, experiencing greater challenges from macroeconomic impacts, as well as geopolitical conflict and volatile energy costs. The value of M&A activity in EMEA fell 30 percent to $721 billion in 2023, while deal volume dropped 29 percent. Average deal size remained stable at approximately $400 million.

Meanwhile, the value of M&A transactions in the Asia Pacific (APAC) region fell 19 percent to its lowest level in a decade, $734 billion, but more acquirers outside the region found appealing targets there—especially in fast-growing economies and countries with relatively low geopolitical risk, such as India. The region overall had net-positive deal inflow for the first time in five years. Japan was a particular bright spot, with activity jumping 49 percent, for example. Greater China drove only about 40 percent of overall deal value—its lowest share in five years. Four industries accounted for about two-thirds of dealmaking value in the region: energy and materials; advanced industries; tech, media and telecom; and financial services. Despite the complexities of vastly different business environments across the region, APAC continues to account for about a quarter of global deal value, up from just 15 percent 20 years ago.

We expect robust dealmaking in APAC in the years to come as multinationals headquartered in slower-growing regions look for opportunities to scale up, consolidate operations, diversify, and advance decarbonization and sustainability initiatives. A World Data Lab report projects that Asia will be home to more than 80 percent of the world's "new consumers" in 2024—tens of millions of people who can afford to spend $12 or more per day for the first time.[2] Brookings points out that the consuming class will outnumber the vulnerable and poor in the region for the first time in history.[3]

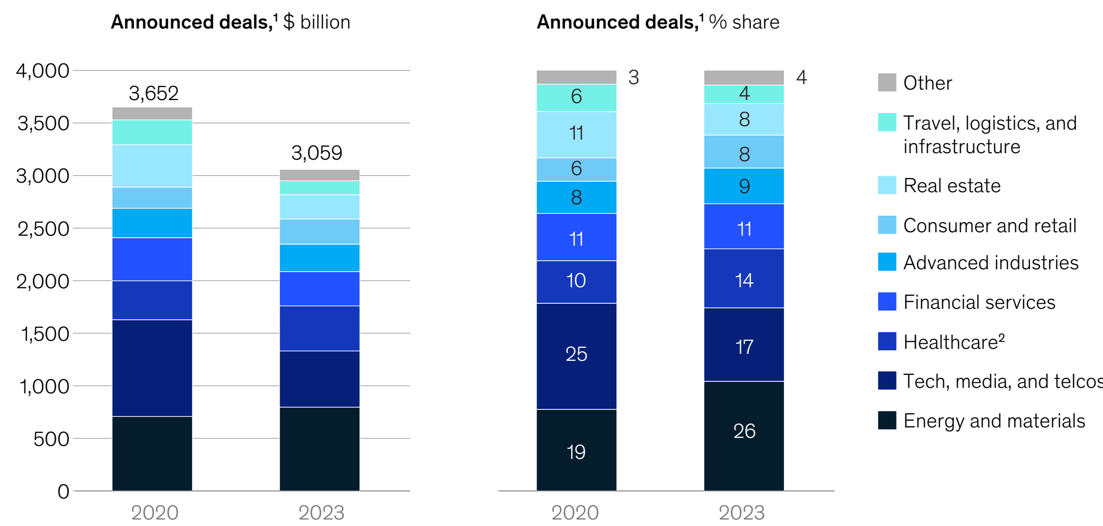
Industry sectors also had varied experiences. Having closed a series of behemoth deals that long kept technology, media, and telecom (TMT) companies in top place as the most active dealmakers, TMT passed that baton in 2023. The GEM sector (Global Energy and Materials) has now become the newest fulcrum of M&A activity globally, claiming 26 percent of transaction value as companies sought to grow core businesses or diversify into adjacencies—signaling their continued faith in fossil fuels.

[2] The 2024 World Consumer Outlook, World Data Lab, November 9, 2023.
[3] Wolfgang Fengler, Homi Kharas, and Juan Caballero, "Asia's tipping point in the consumer class," Brookings, June 2, 2022.

Exhibit 2

Global energy and materials accounted for the largest share of M&A activity in 2023.

Deal activity by sector share, 2022–23



Note: Figures may not sum to 100%, because of rounding.
[1]Deals announced (and not withdrawn) of value greater than $25 million.
[2]Includes Life Sciences.
Source: Dealogic; McKinsey analysis

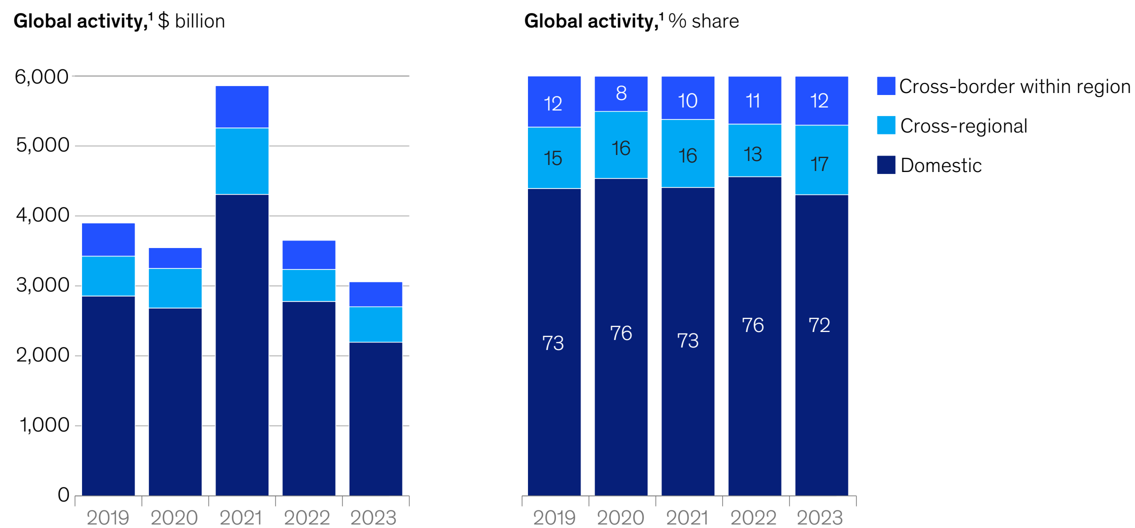
And in a departure from recent years, when PE dealmaking accounted for well over 20 percent of global activity, the dominance of corporate dealmaking grew in 2023 to 82 percent of deal value globally, even as corporate-led value fell 10 percent.

As top executives continued to evolve their strategies through M&A, they kept their focus close to home. Domestic deals remained dominant, delivering 72 percent of deal value. However, the proportion of cross-regional deal activity increased—up four percentage points to 17 percent in 2023—as pandemic-era fears continued to recede.

Exhibit 3

Deals between regions increased in 2023.

Domestic, cross-regional, and cross-border M&A activity, $ billion



Note: Figures may not sum to 100%, because of rounding.
[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

Looking ahead

While the timing of a full-throttle M&A market recovery is not entirely clear, global M&A activity gathered steam toward the end of 2023, supporting many leaders' view that opportunities would open up precipitously.

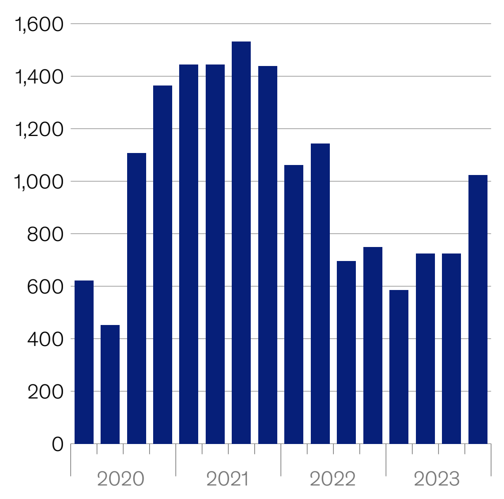
The value of global M&A activity jumped 41 percent in last year's fourth quarter from the third quarter, and 37 percent from a year earlier, to $1 trillion. The number of companies changing hands also increased 7 percent from the third quarter. With many dealmakers regaining a sense of exuberance, average deal size jumped 32 percent from the third quarter, to $550 million.

Exhibit 4

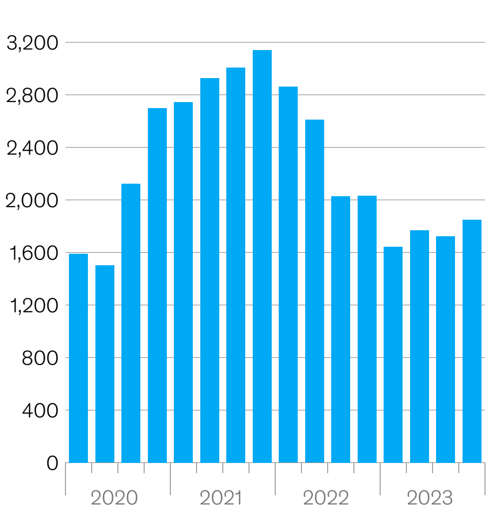
Global deal value jumped in the fourth quarter of 2023.

Deal activity,[1] 2020–23

Deal value by quarter, $ billion



Number of deals by quarter



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

All regions participated in the M&A market's fourth-quarter surge. The value of companies changing hands in the Americas jumped 39 percent from the third quarter, while the average deal size grew 47 percent.

EMEA had an even stronger recovery in the fourth quarter, with the value of deal activity increasing 60 percent from the third quarter, while average deal size jumped 63 percent.

Only numbers like these could make APAC's improvement appear somewhat muted. The value of APAC M&A activity increased 29 percent in the fourth quarter from the third, and 15 percent from a year earlier. APAC was the only region with an increase in the number of transactions.

How to prepare

In anticipation of a market upturn, many leading CEOs across industries and regions are grooming their M&A teams—and their boards—to be ready to leap. Companies are addressing regional and industry shifts with dealmaking aimed at enhancing or reshaping businesses. In addition to acquisitions (increasingly structured in ways to mitigate risk), transactions often include divestitures and a variety of partnerships. Leading transactors are also prioritizing actions aimed at achieving superior performance in M&A, with the most effective dealmakers finding many ways to stack the deck in their favor.

To get ready for what could be a wave of transactions in 2024, companies can take important steps now:

— Re-evaluate M&A themes and update strategy, invest in capabilities and assets that will effectively evolve the portfolio, and consider divestitures as actively as acquisitions.

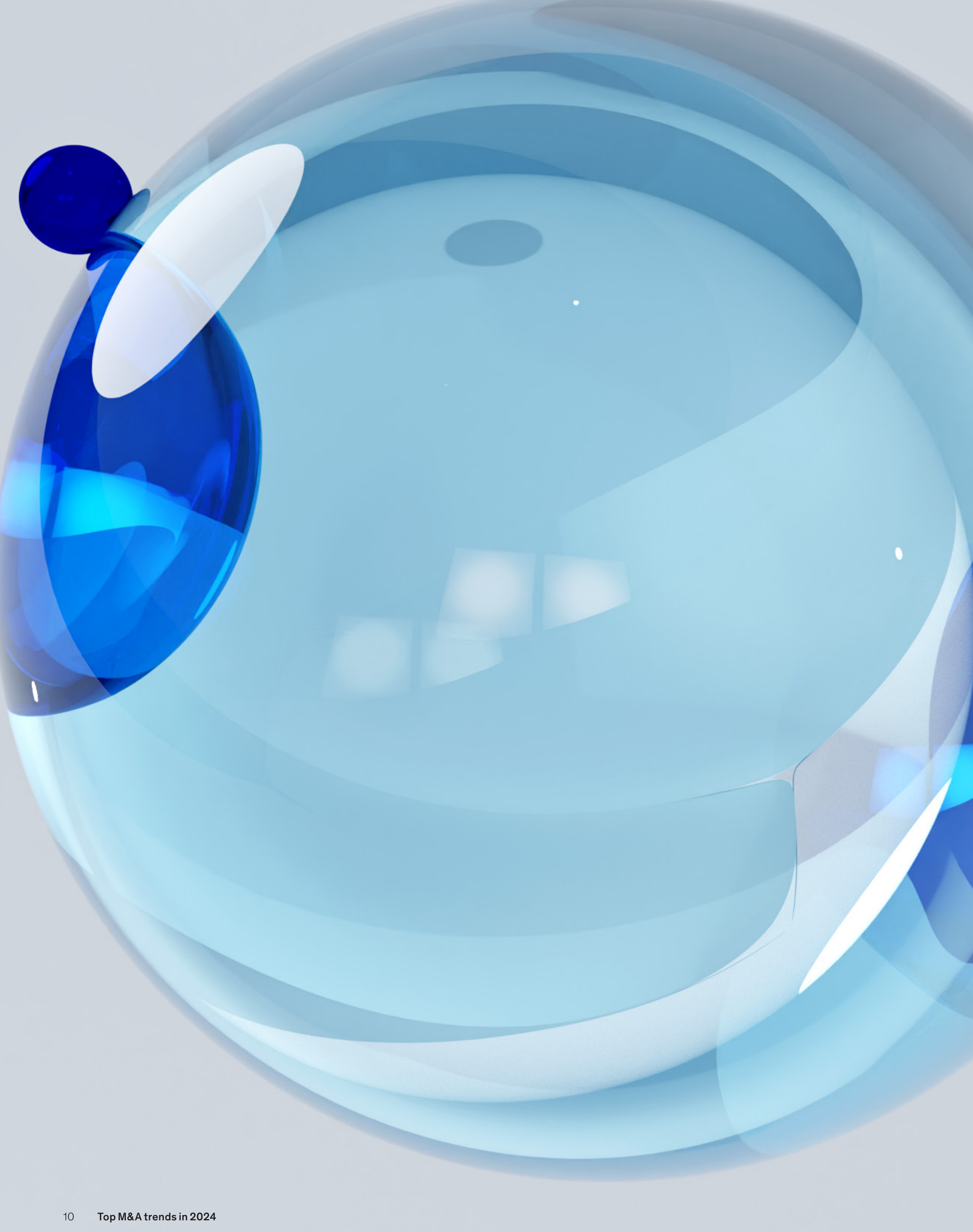
— Shift M&A themes to mitigate increased geopolitical risks—for example, by emphasizing localization rather than geographic expansion, targeting sectors with stronger market outlooks, investing in vertical integration, and strengthening supply chain resiliency.

— Establish a higher bar for value creation to offset higher costs of capital, and think broadly about different kinds of synergies—not just cost or revenue-bound but also capex; not only combinational, but also transformational synergies.

— Pursue partnerships and alternative deal structures—such as JVs, alliances, and public market buyouts—to offset the reduced availability of debt financing.

— Use alternative structures to reduce transaction risks, such as milestone payments.

In the following collection of articles, we offer in-depth discussions on trends and best practices to help you navigate the global M&A environment in 2024. We offer perspectives on some of the critical issues likely to influence performance in a variety of sectors as well as insights on issues of central importance to leaders.



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As chemicals companies work to break out of two-plus years of underperformance in total shareholder returns, M&A could play a major role in jump-starting higher rates of growth. We describe recent drivers of chemicals deals, including entering consumer goods sectors and new geographies, or improving sustainability. Execution mandates include tailoring the integration plan to maximize value, ensuring operational readiness on day one, and protecting and nurturing vital talent.

TMT: Thoughtful M&A strategies are key to growth 28

While the value of deals in the technology, media, and telecommunications industries fell last year, many players continued to pursue deals to offset investment costs and grow revenues. Amid indications of a resurgence in activity, we argue that the most successful players will be precise in ensuring that their deals and execution efforts align with their corporate strategies.

Life sciences M&A shows new signs of life 38

After deal value in life sciences peaked in 2021 and plummeted as the pandemic ended, dealmaking in the sector revived in 2023. Acquiring pre-commercial biotech assets to fuel growth renewed deal success for pharmaceutical companies. Managing the portfolio to improve profitability provided the key for medical technology companies. The current year promises to be an active one for deals across the sector.

Rebound of financial services M&A: Focus on growth and capabilities 48

Higher interest rates boosted banking profits in 2023, but many of the world's banks still struggled to deliver returns above the cost of equity. The growing divide between the industry's outperformers and others suggests that dealmaking will maintain or gain momentum in 2024, including divestments, carve-outs, geographic exits, and rescues—in addition to acquisitions designed to build scale, gain new capabilities, and drive growth.

Consumer goods: A changing landscape for successful M&A 58
Shifting macroeconomics in recent years prompted many consumer goods companies to change their M&A strategies—from large acquisitions in core businesses to smaller deals for high-growth companies, and then back again to the core. Looking ahead, winners will look for new ways to generate value, no matter what they buy. Some companies will take more time to strengthen their targets with new skills or funding. They will also look at new integration strategies, sometimes delaying or forgoing full integration.

The shifting sands of M&A in transportation and logistics 72
Powerful forces are transforming the transportation and logistics industry and shaping new investment priorities for 2024 and beyond. Leading investors are sitting on a war chest of funds and are ready to spend once the market picture clears, valuations embrace fairer multiples, and perspectives on how to best create value solidify. Would-be dealmakers should lay the groundwork for investment now.

Dealmaking in 2024: Getting it right

The portfolio management imperative and its M&A implications 82
The pandemic brought record levels of M&A activity. But a more volatile environment demands greater attention to portfolio management: selecting the right playing fields and managing company assets more tightly. We urge companies to take portfolio management very seriously—which means deciding where to play and building the capabilities required to win.

Creating value from green M&A 92
Across industries, companies increasingly see sustainability-linked deals as a way to stimulate growth and improve operations while raising their environmental, social, and governance (ESG) profiles. We note that the best-performing deals incorporate a tailored deal rationale that drives revenue synergies, retains and develops top talent, and aligns on a common mission and culture.

Leading through uncertainty: Navigating delays in M&A deals 100
Over the past two years, unplanned delays have plagued 30 percent of major acquisitions—stalling deals for six months on average. To avoid depleting value, momentum, and morale, dealmakers need to anticipate delays and develop contingency plans.

The culture compass: Using early insights to guide integration planning 108
Despite all the shifts affecting M&A markets, some imperatives remain unchanged. Culture has always been a key determinant of M&A success. Its importance argues for thinking about culture at every stage of the integration effort, starting well before launching integration planning, and using early insights into the cultures of both companies to shape the integration.

When a transaction forges a transformation 114
As central bankers work to combat high inflation, dealmakers have moved from near-zero cost of capital to an environment where the cost of capital has become a real factor. Accordingly, the most successful acquirers are looking beyond combinational synergies to achieve true performance transformation through M&A.

Spotlight on Asia

Creating value with M&A in Asia's diverse marketplaces 122
The Asia-Pacific region continued to account for a quarter of global deal activity in 2023. Greater China saw less activity for the fourth consecutive year, while dealmaking in Australia and New Zealand held steady, and activity in Japan climbed. Seizing opportunities in this diverse market requires a nuanced grasp of local cultures and business practices.

We welcome your comments on this collection of articles, which you can address to:
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For additional perspectives on M&A market trends and leadership insights, please see our latest thinking at www.mckinsey.com/manda. You can also listen to experts discuss M&A topics on our Inside the Strategy Room podcast series: www.mckinsey.com/itsr.

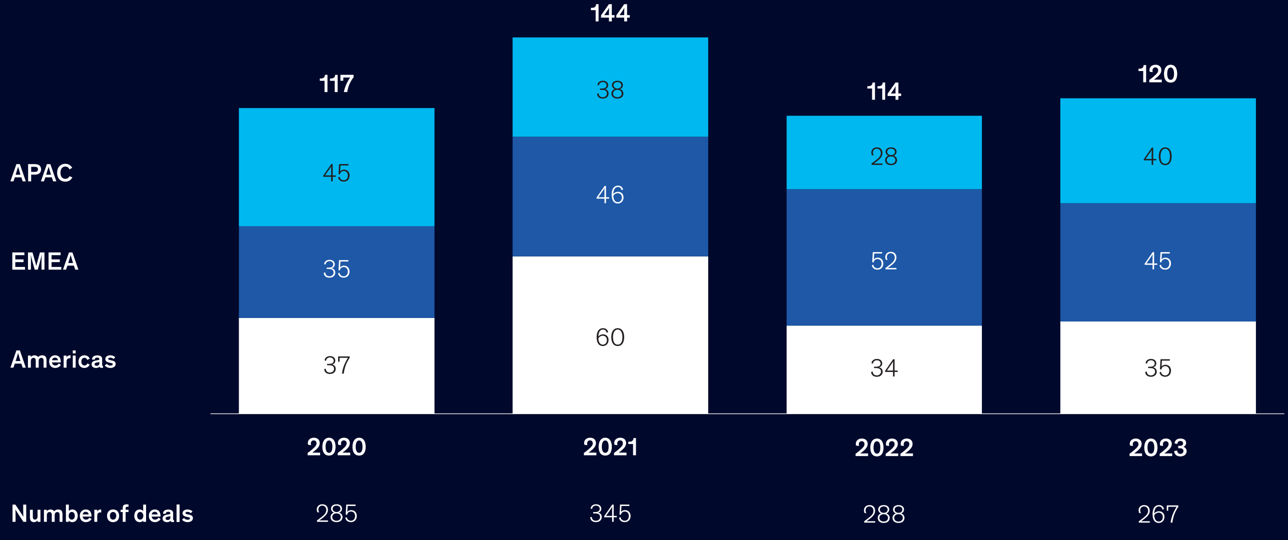
Industry sector updates and emerging trends

Chemicals and agriculture

Fact sheet

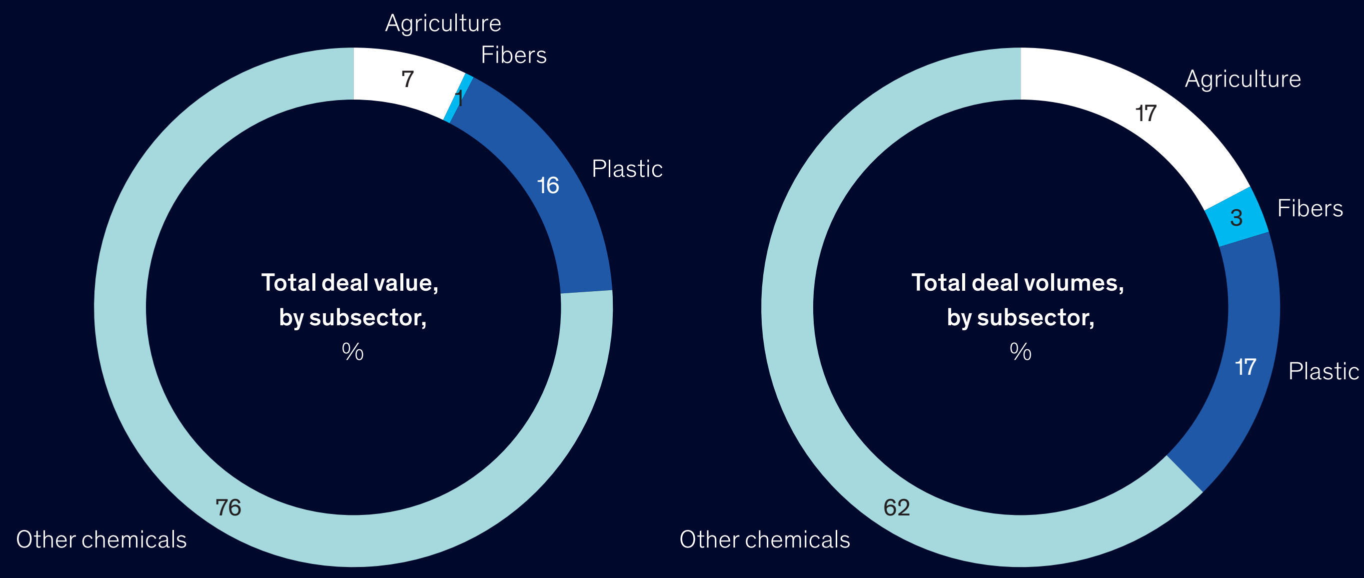
Deal value

Total deal value by target region, $ billion (Jan 2020–end of Dec 2023)

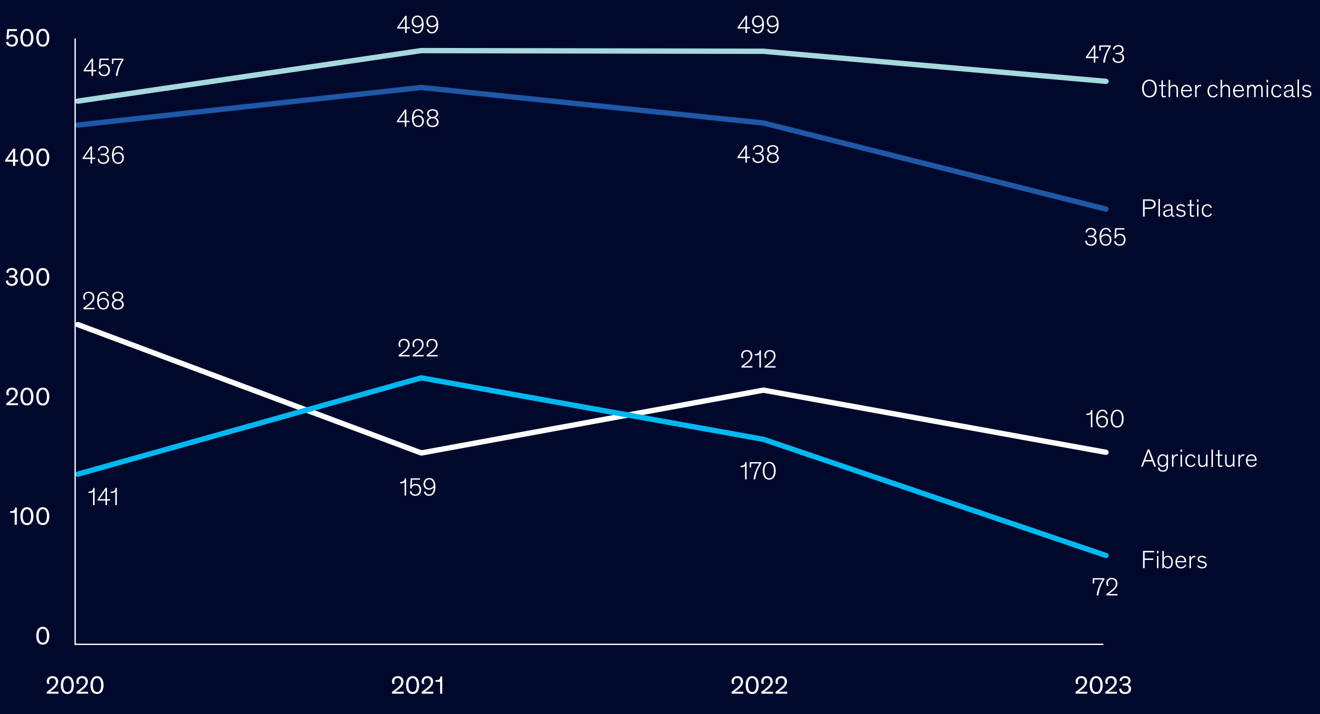


Number of deals 285 345 288 267

Share of activity by subsector, FY 2023



Average deal size by subsector, $ million (Jan 2020–end of Dec 2023)



Chemicals: Success through timely, tailored action

By Obi Ezekoye, Christine Johnson, Andrew Rose, and Ulrich Weihe

M&A is a powerful means to create value in the chemicals industry; getting it right requires tailoring execution to the sector.

Because the chemicals industry is cyclical, its leaders have had to work harder when broader economic conditions shift against them. Now, as the industry works to break out of two-plus years of underperformance in total shareholder returns (TSR), we see a clear case for companies to take bold action, including pursuing aspirational transformations, more aggressive capital allocation, and breakthrough innovation.

Mergers and acquisitions are one of the most effective methods to achieve these objectives. And, after two years of declining M&A activity, we see indications of an upturn. After hitting a low point in the first-quarter of 2023, deal value in the chemicals, materials, and energy sectors continued to grow through the year. This suggests that now is the time for chemicals acquirers to consider their M&A capabilities and prepare for the upcoming wave of deals.

Achieving excellence in M&A execution can be difficult. Moreover, the chemicals industry has some specific nuances that acquirers should consider when tailoring their integration program.

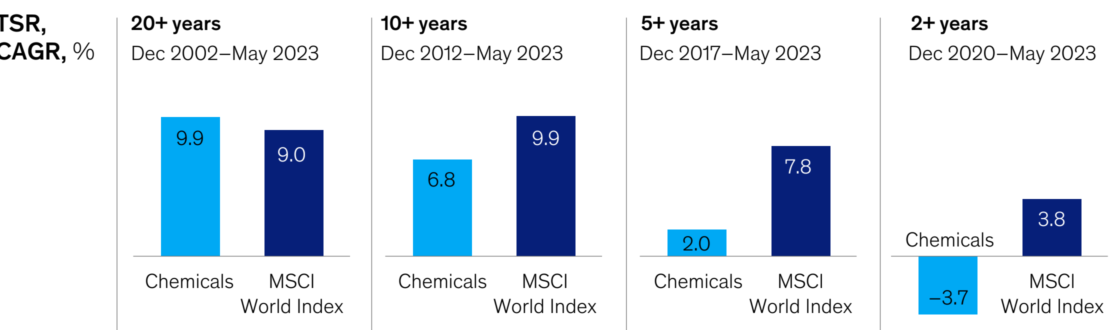
Chemicals companies are now seeking new ways to thrive within the current paradigm, and M&A can be a catalyst for the needed strategic shifts.

Industry underperformance requires bold action

Last fall, we wrote about the unique challenges facing the chemicals industry, which has recently underperformed the world index in TSR (Exhibit 1).

Exhibit 1

Following a history of outperforming, the chemicals sector has underperformed the global stock market index for more than two years.



Source: MSCI World Index; S&P Global Market Intelligence; McKinsey Value Intelligence

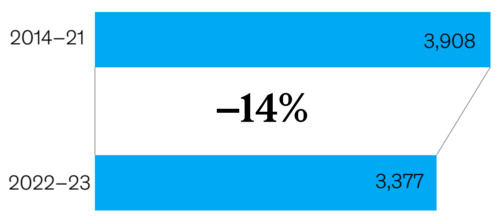
Several factors have historically driven chemicals industry outperformance, including growing exports to Asia (mainly China), increasing chemicals penetration, functional excellence–driven performance improvements, price increases, and strong fundamental demand. These have become less and less prevalent in the past ten-, five-, and two-year periods. Chemicals companies are now seeking new ways to thrive within the current paradigm, and M&A can be a catalyst for the needed strategic shifts.

Patterns in chemicals M&A

Chemicals industry M&A has been hit even harder by the challenges that have depressed global deal activity: persistent inflation, high interest rates, historically high valuations, and geopolitical tensions. Exhibit 2 compares chemicals industry M&A activity with that of other industries. Total chemicals deal value in both 2022 and 2023 was 30 percent lower than the average during the eight years prior. That is more than twice the reduction in all M&A globally in the same period.

Exhibit 2

Global M&A and deals in the chemicals sector have slowed in the past few years.



Average annual deal value for chemicals M&A, $ billion

Source: Dealogic; McKinsey analysis

Even against the backdrop of major market corrections across all sectors, the chemicals industry has underperformed compared to the broader market in the past two years. In this context, we are not surprised to see that M&A and other bold moves were much less prevalent in the chemicals industry.

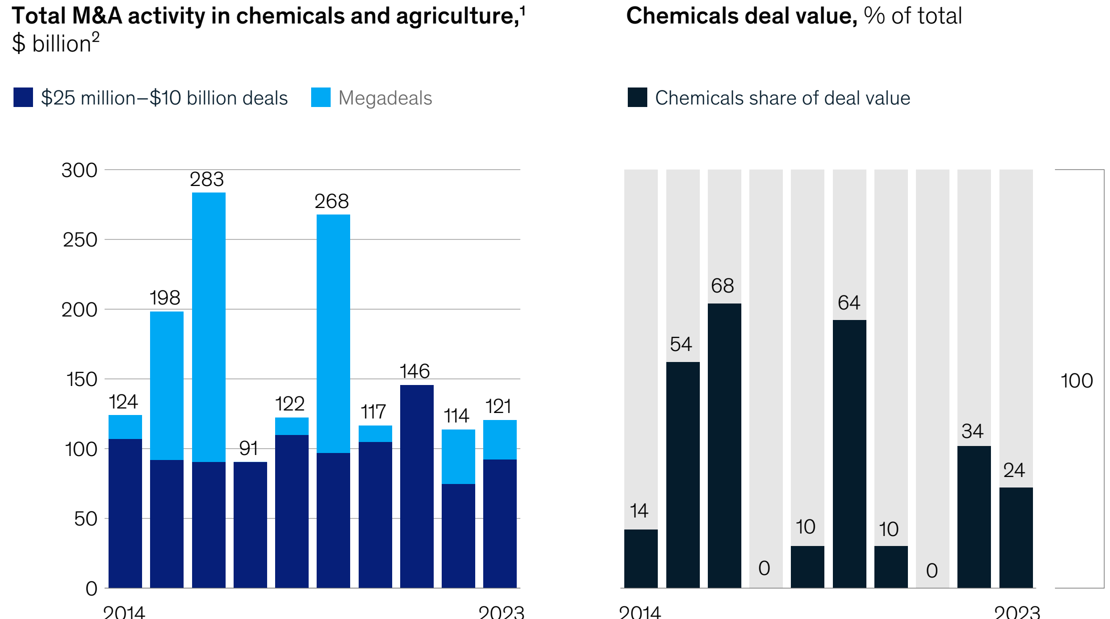
A closer look at chemicals M&A over the past decade reveals two patterns

First, M&A activity tends to follow sub-sector themes, shifting away from large, diversified business portfolios that have sometimes been built over 100-plus years. We have, for example, seen segment-level consolidation in agriculture chemicals and pigments and coatings over the past few years. Most recently, there has been a rise in deals in flavors, fragrances, cosmetics, and personal care. We expect to see these waves continue as owners of fragmented, highly diverse portfolios seek to build global leadership positions with synergies, and improve their competitiveness at the segment level.

Second, the data shows spikes in chemicals megadeals, which we define as those greater than $10 billion. In 2016 and 2019, for example, these megadeals made up more than 60 percent of total chemicals deal value (Exhibit 3).

Exhibit 3

Megadeals have played a big role in the chemicals M&A market over the past decade.

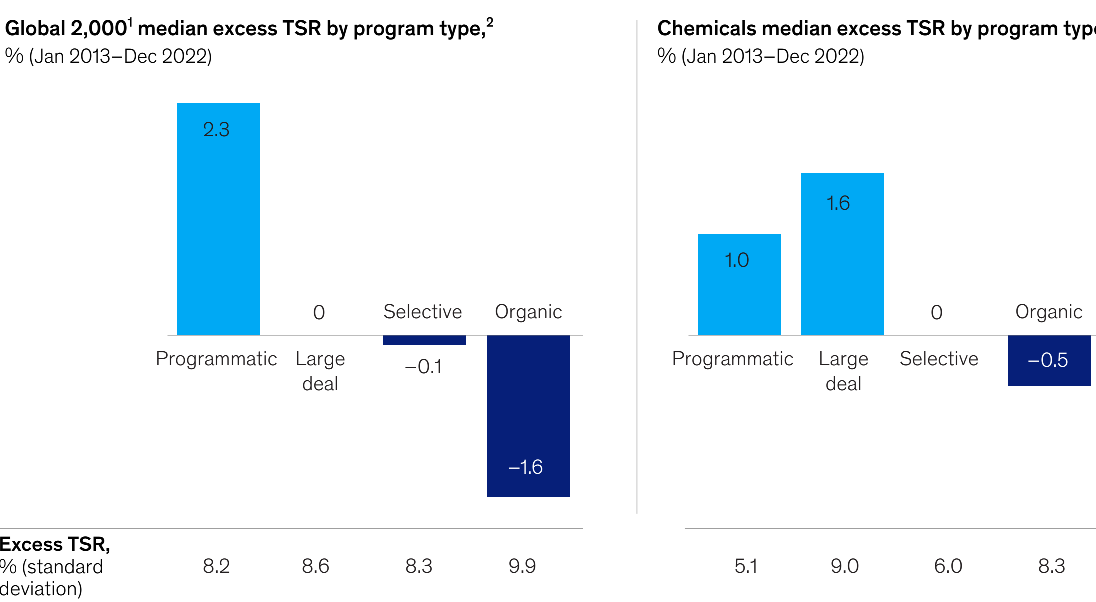


[1]Deals announced (and not withdrawn) of value greater than $25 million; deal value does not include debt.
[2]Nominal, as announced, by date of announcement.
Source: Dealogic; McKinsey analysis

The prevalence of megadeals in chemicals could be explained by the industry's ability to successfully create value through large deals. Our 15-year study of M&A archetypes has found that across industries a programmatic approach—defined by two or more small or midsize deals per year—generates the most value on a risk-adjusted basis, presuming the deals have a meaningful size, (that is, a median of 14 percent of the acquirer's market cap purchased). However, for chemicals companies, the large deal approach to M&A—defined as less frequent but larger acquisitions (with at least 30 percent of the acquirer's market cap purchased)—has also been a successful strategy in generating excess TSR. Exhibit 4 compares the performance of the program types since 2013.

Exhibit 4

In chemicals, both programmatic and large-deal M&A can deliver excess TSR.



[1]Companies that were among the top 2,000 companies by market cap on Dec 31, 2012 (more than $2.5 billion), and were still trading as of Dec 31, 2022; excludes companies headquartered in Africa and Latin America.
[2]Program type classified over 5 years.
Source: Global 2,000 (2022); S&P Capital IQ; McKinsey Value Intelligence

While not all large chemicals deals are successful (as shown by a higher standard deviation in Exhibit 4), it is true that the chemicals industry has succeeded with large deals more than other industries. When we explored why, we found that successful large chemicals dealmakers often used these deals to pursue more focused platforms, with the aim of gaining greater geographic or product depth as pure-plays, or by stepping into higher-margin sectors.

These themes fall in line with broader research that has shown that focused portfolios perform better than large, diversified conglomerates. Notably, even successful large deal acquirers tended to complement this strategy with a programmatic approach that includes smaller deals and divestitures, with an average of 2.6 events a year.

Recent drivers of programmatic chemicals M&A

In addition to the above drivers of larger deals, we noticed three factors that are prevalent in chemicals programmatic M&A:

Consumer markets. Companies are pivoting their positions, driven by shifts in consumer trends, including increased demand for products such as electronics, batteries, lightweighting, food and nutrition, and personal care. Companies are capturing important growth opportunities and building more promising R&D portfolios. Moreover, consumer markets are attractive for their lower capital requirements and higher ROIC. This is a prevalent trend—although moving downstream can be a challenging pursuit, given high multiples and historically lower TSR.

Sustainability. More than half of the announced chemicals industry deals in 2023 had sustainability drivers, continuing a trend of recent years. These drivers include securing advantageous green feedstock, building a reliable and green energy supply, pivoting toward a greener product production portfolio, increasing exposure to sustainable end markets, and enhancing circularity of the portfolio.

Geographic optimization. Chemicals companies are pushing to be closer to customers. Driven by supply chains and local needs, global companies are requiring a more tailored local approach to serving dispersed end markets. The current post-COVID climate, further complicated by geopolitical tensions, has spurred companies to evaluate their footprint and ensure they have local partnerships that can accelerate customer access or facilitate movement of supply.

Considerations to improve M&A execution in chemicals

At a basic level, the keys to success in chemicals deals are no different than for other industries. Whether pursuing a programmatic agenda or large deals, companies must take several steps to beat the market. Successful programmatic dealmakers, for instance, prioritize their targets, firmly commit to their strategy, and carefully chart progress. The best large dealmakers minimize business disruption during integration while outperforming their aggressive synergy targets and institutionalizing new ways of working in the new company.

Beyond these keys, chemicals acquirers should address some industry-specific nuances when designing integration programs. They must tailor the integration approach to their growth and capability-building objectives, ensure they have planned for the day one risks particular to the industry, and protect and nurture the technical talent that generates the most value and is hard to replace.

Tailoring the integration plan for value creation

Chemicals companies have historically used M&A as a means of realizing growth, with deal models centered on new capabilities or business models, significant revenue synergies, or entering new markets. Last year was no exception, with at least half of the deals announced signaling significant value creation from non-cost mechanisms. Successfully delivering on transformational expectations requires avoiding two typical failure modes we have seen in chemicals integrations:

Successfully delivering on transformational expectations requires avoiding two typical failure modes.

Failure mode 1: Applying an integration playbook focused solely on cost synergies. Cost synergies, such as consolidating functions or centralizing sourcing, are of course implicit to almost any deal and important to capture. However, they will not suffice to deliver the benefits expected of these deals. Because cost synergies are more easily measured and quickly captured, hitting these targets may give management a misleading sense of achievement. They do not guarantee that the future company is equipped with the capabilities required to deliver on the real opportunity. They may even prevent integration leaders from driving overall business success.

Failure mode 2: Setting unrealistic, unfunded, top-line targets. Aggressive revenue targets can convey a convincing ambition to the capital markets and make sense on paper. However, achieving them typically requires intense focus, mobilizing the entire organization in a cross-functional approach, and additional capital and operational expenses. Moreover, acquiring high-growth "nuggets" requires the acquirer to resist the temptation of "embracing the target to death"—that is, overwhelming them with processes and structures and distracting them from their growth objectives. Thus, companies often fail to capture the planned impact of these investments. If the newly integrated company fails to deliver growth as promised, management teams then push for further productivity improvements, including headcount reductions, to meet earnings targets.

Successful acquirers start by establishing a strong understanding of each deal's rationale. For deals predicated on revenue synergies, these acquirers establish—early on—cross-functional teams that can identify precise sources for these synergies. In deals involving acquisitions of new IP or entering areas of new opportunity, winners hold off on consolidating the teams for cost savings. Instead, the integration leadership starts by designing a future operating model that will protect the target's culture and its "special sauce"—what makes the target company unique and successful. In deals requiring capitalizing on joint innovations, winners avoid counterproductive steps such as racing to close labs or prioritizing a more cost-efficient footprint.

Ensuring day one operational readiness

Chemicals company integrations tend to pose more significant operational risks on day one than mergers in other sectors. Even when it appears that little is changing day to day, chemicals integrations bring supply chain and logistics risks triggered by legal entity changes and product registrations. Day one success thus means addressing regulatory and compliance risks due to

the integration of quality systems, legal entity changes, and new markets. Environmental and safety risks are also of high concern given the nature of chemicals operations, which can be disrupted when combining organizations with different safety procedures and protocols.

> **The integration team should define day one critical escalation processes for both companies.**

Chemicals integration leaders should therefore go beyond the typical day one preparedness topics like financial and HR systems. Companies must thoughtfully design chemicals-specific day one readiness plans with a focus on critical systems, processes, and interdependencies across functions. They must rehearse these plans with all stakeholders, such as commercial, operations, legal, IT, and environmental health and safety groups. The integration team should invest time to define day one critical escalation processes across both companies for potential risk scenarios, such as supply chain, quality, safety, or customer issues. Deal partners must put ample time into understanding each other's protocols, deciding if they need any changes on day one, and, at a minimum, ensuring visibility in case of an emergency. For example, how will communication procedures be deployed to mark all employees "safe" if the two companies are still on different telecom and internet systems on day one? Successful chemicals acquirers will also stand up a week 1 "command center" where issues can be escalated and managed rapidly.

Protecting and nurturing value-creating technical talent

Talent retention is a critical topic in any integration, and much effort (and capital) will typically be allocated to ensuring the best leaders stay on with the new company. Chemicals acquirers must address not just the standard "high potential" talent pools but also their most valuable talent—researchers, scientists, and innovation directors. These colleagues carry institutional knowledge, capabilities, and sometimes "only-in-the-industry" experience that creates significant value for the organization. Many of the chemicals deals we reviewed in 2023 were motivated by innovation factors such as access to new patents, technology, and processes. Delivering on the chemicals acquisition deal thesis usually requires retaining and nurturing technical talent pools.

Much has been written about talent retention in integrations, but retaining technical and R&D talent requires more than traditional financial retention measures. Successful chemicals acquirers put innovation at the forefront of integration planning and offer creative incentives, such as special research assignments, innovation awards, or the opportunity to pursue independent research. The integration strategy must also be thoughtful on the location and structure of day-to-day work. Where will the innovation teams be located? Will they have to relocate to a new headquarters? How will they be integrated? Companies must take care to design the optimal location strategy. There are many anecdotes describing target companies'

top scientists leaving for jobs at local universities rather than relocating to the new headquarters. At the same time, research has shown that a virtual-only tech workforce may be less innovative than in-person teams. R&D organization integration requires thoughtful measures like rotations or hybrid strategies to ensure sufficient co-location to support the pace of innovation.

Retaining technical and R&D talent requires more than traditional financial retention measures.

M&A will continue to be one of the most critical strategic moves for chemicals company management teams, and we expect activity to pick up in the coming months. In all cases, creating and executing an effective M&A strategy requires understanding both the M&A execution basics and the chemicals industry's special nuances that can determine a deal's success.

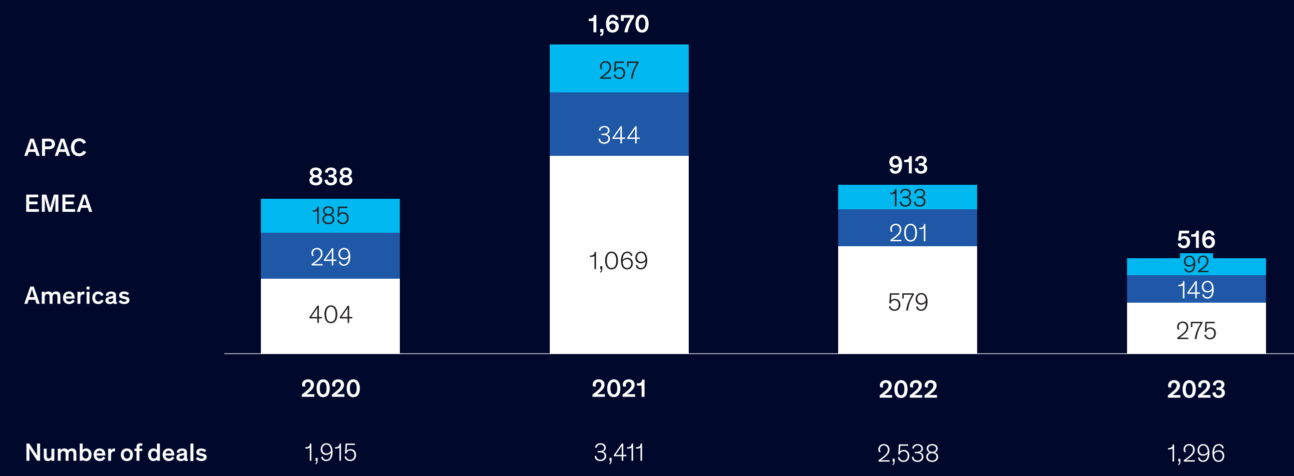
The authors wish to thank Devina Singh for her contributions to this article.

Technology, media, and telecommunications

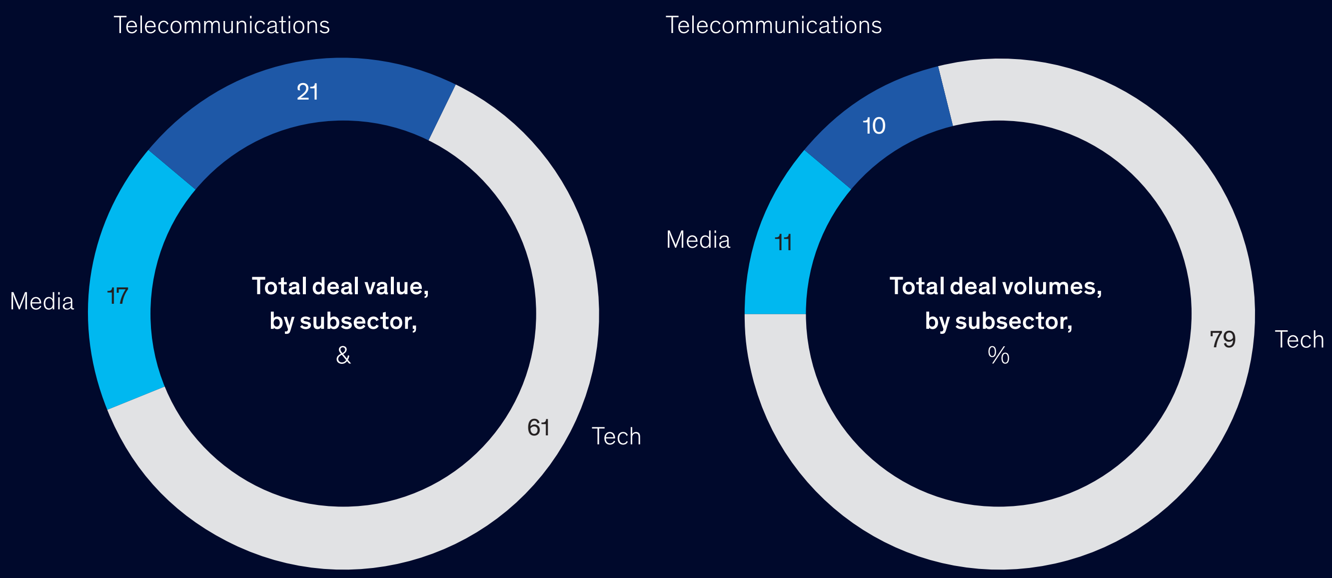
Fact sheet

Deal value

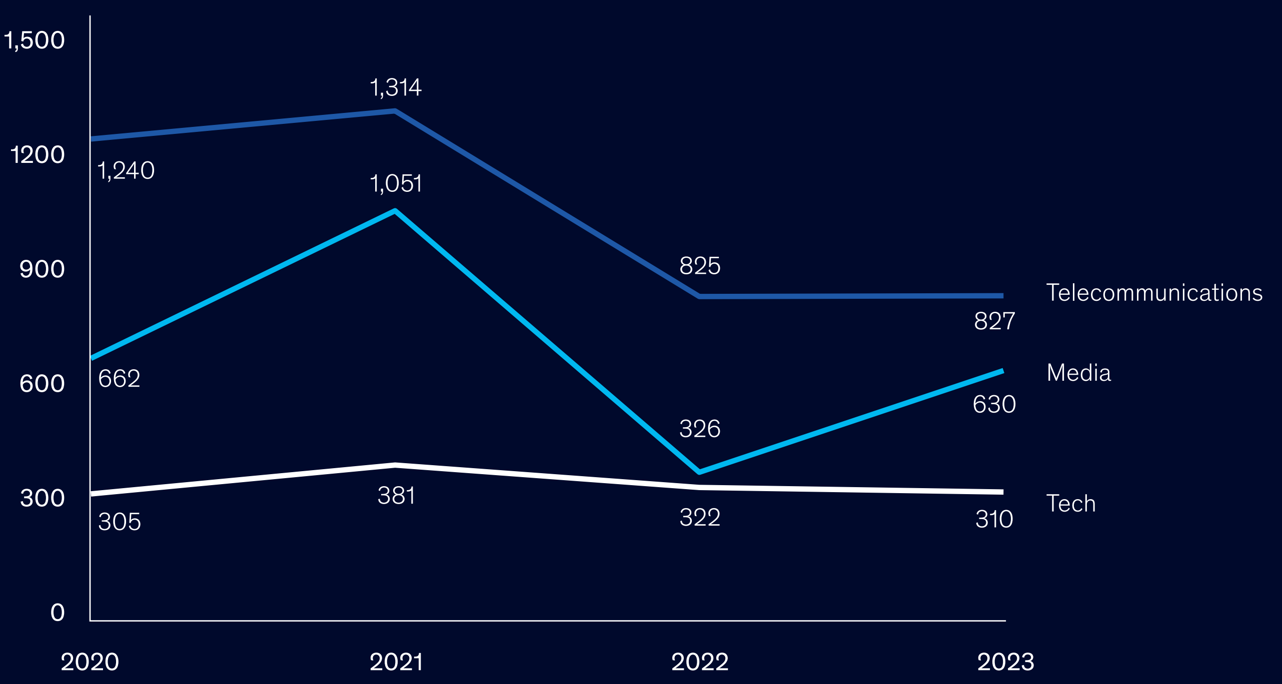
Total deal value by target region, $ billion (FY 2023)



Share of activity by subsector, FY 2023



Average deal size by subsector, $ million (Jan 2020–end of Dec 2023)



Industry sector updates and emerging trends

Thoughtful M&A strategies are key to growth in tech, media, and telecom

By Lena Koolmann, Anthony Luu, and Suzy Shaw

With technology, media, and telecommunication companies poised for a potential resurgence in M&A, players seeking growth need precise, focused M&A strategies that are aligned with their corporate goals.

Technology, media, and telecommunications (TMT) companies are connected in several ways. They have similar drivers of growth. They all generate connectivity among people and systems. They have all been faced with constant and rapid digital innovation, requiring them to pivot their businesses quickly. As a result, many have continued to rely on mergers and acquisitions to offset investment costs and expand revenues. In 2023, for instance, TMT continued to contribute a significant 17 percent of the value of global M&A activity, a share that was only slightly down from 2022.

Nonetheless, TMT has not been immune to the overall decline in transactions and value. Transactions fell about 50 percent in 2023 to about 1,300 deals. Total deal value dropped 43 percent to $516 billion. The bulk of the decline was in North America and in technology, where higher interest rates and depressed spending prompted many companies to focus on shoring up core operations rather than expanding into new areas.

Still, M&A continues to be a key growth driver in TMT. A few examples tell the story. In technology, software companies have often used M&A to acquire new intellectual property and talent—as demonstrated by Cisco Systems' acquisition of cybersecurity company Splunk, for instance. The media industry has seen significant consolidations, as businesses seek to expand the share of consumers with whom they engage. For example, multiple US companies have merged for this purpose. Further, telecom operators have consolidated and optimized their portfolios through acquisitions and joint ventures, as deals across Europe confirm.

In 2023, TMT continued to contribute a significant 17 percent of the value of global M&A activity, a share that was only slightly down from 2022.

Looking ahead, we see early indications of a resurgence in M&A activity. For one, the relatively weak economic profit of smaller companies provides compelling M&A opportunities for top players seeking to gain access to new profit pools. In addition, private equity has been playing an increasingly important role as PE firms seek higher returns from rolling up software players or go after relatively stable, known returns from telecom infrastructure players.

As we have seen over time, programmatic M&A, in which companies execute a series of smaller deals to support a specific business case or M&A theme, continues to generate the most value compared to other strategies. As TMT players gear up, success requires them to be sharp and precise in aligning their deals and execution efforts with their corporate strategies.

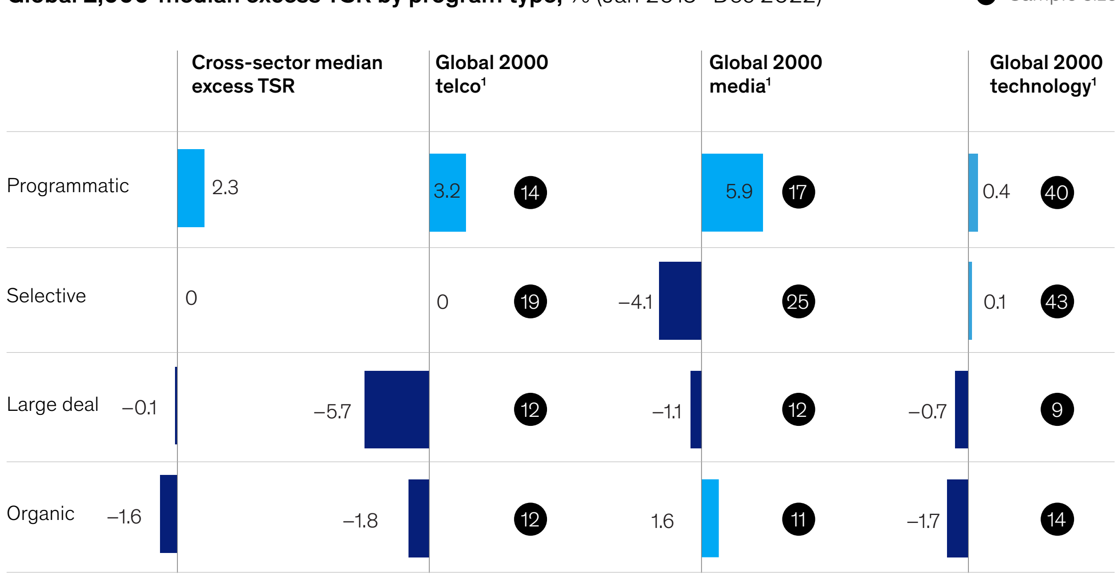
The enduring value of programmatic M&A

Our research shows that, in TMT, programmatic M&A generates excess total shareholder returns of 2.3 percent—a much better performance than other M&A strategies, such as large deals or selective M&A (Exhibit).

Exhibit

Programmatic M&A creates better outcomes than other M&A approaches used by TMT companies.

Global 2,000[1] median excess TSR by program type, % (Jan 2013–Dec 2022)



[1]Companies that were among the top 2,000 companies by market cap on Dec 31, 2012 (over $2.5 billion), and were still trading as of Dec 31, 2022; excludes companies headquartered in Africa and Latin America.
Source: Global 2,000 (2022); S&P Capital IQ; McKinsey Value Intelligence

In this context, small deals of under $500 million have continued to dominate the market in recent years, making up 88 percent of total transactions between 2020 and 2023, and 21 percent of total deal value. Many players are still seeking to acquire technology and people to avoid lengthy in-house development cycles, which are historically more expensive and riskier.

At the same time, megadeals of more than $5 billion have remained more common in TMT than in other sectors, with 44 percent of total transaction value from 2018 to 2023 compared to 34 percent across all other sectors. As mentioned, telecom players continue to consolidate to reduce high infrastructure costs. One example is the merger of broadband company Virgin Media with mobile provider O_2. Separately, some media and tech players have sought to expand beyond their core—into gaming and other areas, for example.

While the outlook for programmatic M&A still looks promising in TMT, players must also be mindful of the characteristics, nuances, and trends unique to each of the three subsectors.

Technology: Software remains the center of activity

Software drove 80 percent of all technology M&A activity in 2023, with total transaction value at $253 billion—down 60 percent from the previous year. This dominance has been consistent over the past decade, with both existing software companies and non-tech players using software M&A as a key growth mechanism. We expect software to remain an active subsector for M&A activity in 2024, given the following:

— Valuations of early-stage players are beginning to come down from record highs that had been driven up by private equity and non-tech players entering the market. If private equity players were to decrease their M&A and double-down on their existing portfolios, this could leave opportunities for strategic buyers.

— Confidence is rising, reflected in a return of notable venture-backed IPOs in late 2023 after a 20-month break from listings in the US—for example, the marketing automation company Klaviyo.

— Companies will continue to use M&A to acquire IP and talent rather than go through the expensive and time-consuming process of developing it in house. The Cisco-Splunk deal mentioned earlier is a prime example.

— Other growth options perform far worse than programmatic M&A. For instance, organic strategies in technology erode total shareholder return (TSR) by 1.7 percent, compared to positive 0.4 percent for programmatic M&A.

We anticipate that the most successful players will consider these plays:

Expansion, focused on cross-selling. We expect continued expansion within existing product categories, new categories, or geographically, but with a greater focus on fulfilling the cross-sell proposition. Successful players will take a programmatic approach to thoughtfully acquire companies where they can add value through technological capabilities or management knowledge, given that de novo innovations are rare. For example, Hexagon, a creator of automation systems, has completed over 170 acquisitions since 2000, and now plays across multiple industries in both software and hardware. Winners will also significantly strengthen their integration and organic scaling capabilities to deliver on revenue synergies and extract value from their acquisitions. These are skills that the sector has been less focused on historically, given high valuations.

Winners will significantly strengthen their integration and organic scaling capabilities.

Reconfiguration of the portfolio. Historical evidence suggests that being a top three or four player in a specific industry or product segment has significant value, given the benefits of scale. While many companies have broadened their portfolios to grow their top lines, they should now use a critical lens to identify which of their segments are the most relevant and profitable. Successful players will consider divestments and asset swaps to narrow their focus and allow their organizations to allocate resources to products and services where they can truly win.

Media: Programmatic strategies unlock exceptional value

Media was one of the few sectors that saw an increase in deals in 2023, with deal value at $89 billion—up 19 percent from 2022, but still below the levels reached in 2020 and 2021. Looking ahead, we see that the industry still exhibits considerable fragmentation in several sub-segments—such as publishing, where there are few cross-geography players. That fragmentation, plus increasing pressure on margins, might drive some companies to seek scale through megadeals, which could also allow them to secure funding for an accelerated shift to digital business models.

However, players need to be cautious, as government competition authorities have struck down several recent horizontal mergers due to concerns about market overlap and potentially excess power. For instance, the French TV companies TF1 and M6 called off their deal after regulators expressed concerns about media consolidation. A judge blocked the merger of Penguin Random House and Simon & Schuster in the US, saying it could harm competition in publishing.

More fundamentally for players across media formats, programmatic M&A approaches have significantly outperformed megadeals. Historically, a programmatic strategy in media delivered impressive excess TSR of 5.9 percent—twice the return in other sectors. Going forward, we expect that the most successful players will continue to take a programmatic approach and to thoughtfully acquire targets based on one of several archetypes that suit them best:

Multimedia shops. With a large portfolio of assets and brands across media verticals, multi-media shops have highly diversified revenue streams, an established core customer base, and, typically, national scale in advertising. M&A helps them to expand content types and offer robust

user experience across platforms, thereby improving brand value and increasing consumer engagement. However, integration of many of these acquisitions has been limited so far—allowing acquirers further opportunity to extract value and bring together their portfolio.

Media vertical heroes. Several players, primarily in EMEA, have doubled-down on a specific media vertical, such as radio, audiovisual content production, music events, TV broadcasting, or book publishing. They have prioritized using M&A to build and maintain a unique and market-leading value proposition with national or international scale. Successful players will integrate these transactions to gain scale within their niche and become the ultimate destination for consumers in that space.

"Beyond-media" conglomerates. These players derive most of their revenues from a core media business, but they have expanded into non-media products across industries to monetize their reach. This model is seen more regularly in EMEA, Latin America, and APAC, with players engaging in strategic M&A to use their customer insights and consumer reach to compete with incumbents more effectively. For example, traditional publishing businesses have expanded into online marketplaces. As competition authorities become more cautious about media deals, it will become increasingly important for national companies to adapt their M&A approach, looking beyond their geography or sector (which could attract opposition) to compete with global players.

Digital disruptors. These companies are growing rapidly with an innovative tech-based proposition, but their core business remains outside media. They have huge cash reserves and access to capital, so they can use M&A to enter media verticals and capture customers from more traditional companies. Examples include US companies that have acquired businesses in online gaming and content creation. By capitalizing on their existing customer base and technology capabilities, these disruptors can drive monetization across the entire business and undercut traditional media companies.

Players need to be cautious as government competition authorities have struck down several horizontal mergers.

Telecom: Growing or splitting up can both succeed

Telecommunications operators saw $111 billion worth of transactions in 2023, down 29 percent from 2022. As in the other TMT sectors, players have gained significant value from programmatic M&A, achieving excess TSR of 3.2 percent during the year while other strategies either netted little or eroded value.

EMEA was the top region for telecom M&A activity during 2023, with 57 percent of global transaction value. Several types of deals predominated, including consolidation of mobile operators and convergence of fixed-mobile players (such as Virgin Media and O_2). Some players have pursued operational de-layering—separating their network infrastructure and operations from customer-facing operations—to increase specialization and value various parts of the business appropriately. Private equity has also started to play a much bigger role in this space. Meanwhile, telecom M&A activity in the US has fallen steadily over the past decade as the market becomes highly consolidated.

Looking forward, we expect to see three themes for M&A-savvy telecom operators:

1. **Further consolidation to capture cost synergies** while increasing average revenue per user from cross- and up-selling and reducing the risk of churn from converged customers. In terms of options, EMEA still has some markets with more than three mobile network operators, including France, Italy, and the UK. By contrast, APAC has limited opportunities remaining for mobile-mobile consolidation, with many markets already at just two or three operators. In addition, fixed-mobile convergence will remain a trend in Europe, particularly in countries where pure mobile or fixed players have significant market share. These include Denmark, Ireland, the Czech Republic, and Romania. We also expect to see more complex deals, spurred by regulators' demands for remedies to maintain market competitiveness. For instance, the European Commission has required the sale of assets before approving some recent telecom operator deals.

2. **De-layering will continue to accelerate in Europe.** De-layering enables operators to optimize their capital structures, focus more attention on their customers, and improve management focus. It can take a number of forms. The primary one will continue to be companies' separating their network infrastructure and operations from customer-facing operations. Companies may also seek internal P&L splits or joint ventures. JVs, in particular, can help companies attract investments into their network expansion upgrades, or unlock cost synergies by sharing fixed and/or mobile networks with another operator. In APAC, we see some de-layering of data centers, while others sell and lease back their cell towers. However, the de-layering trend in APAC is much less developed than in Europe.

3. **Diversification will be increasingly important** as telecoms face decreasing revenues per customer and new competition from established tech players and start-ups. An erosion in value from traditional telecom products will force players to look elsewhere for returns,

An erosion in value from traditional telecom products will force players to look elsewhere for returns.

although executing such diversification has historically been more challenging in the less protected markets that make up the majority of the sector. Nonetheless, research suggests that there is demand for new services, with 56 percent of customers open to buying a service other than connectivity from their operators.[1] This is likely to be particularly important in developing markets, where increasing the average revenue per customer is difficult. Examples of such new services could include cloud, cybersecurity, Internet of Things, fintech, healthtech, and artificial intelligence.

Caution: Regulatory obstacles need attention

As we have already suggested in some specific cases, a key trend that TMT players must contend with is growing regulatory scrutiny. The results of this trend will range from longer waits for approvals (compared to other industries) to increased deal complexity as regulators require more remedies, such as divestitures, to address competition concerns. This increased scrutiny has different consequences for the three subsectors:

— In technology, regulators concerned about geo-political tensions may sharply scrutinize deals that put critical infrastructure and data in the hands of foreign entities.

— In media, large companies have expanded their reach globally, and regulators continue to refine the definition of markets and assess the market power of individual players.

— In telecom, consolidation may help companies manage significant infrastructure requirements and investment costs, but it is reducing the number of competitors in some markets, such as the US and Sweden. Regulators are keen to maintain healthy competition and protect consumers.

2024 and beyond

Looking ahead to the M&A landscape in coming years, technology, media, and telecommunications will remain key sectors to watch, due to their dynamic nature and potential for disruption. Given the historical importance of programmatic M&A to drive value, we expect to see a continuation of that trend. However, at the same time many businesses have become increasingly complex, with broad product portfolios and large geographic footprints. Therefore, the savviest players will not only look to new products, services, and markets, but they will also re-evaluate their portfolios and engage in strategic divestments. Both of these strategies will allow them to thoughtfully reshape their organizations and retain or expand strategic and competitive advantages.

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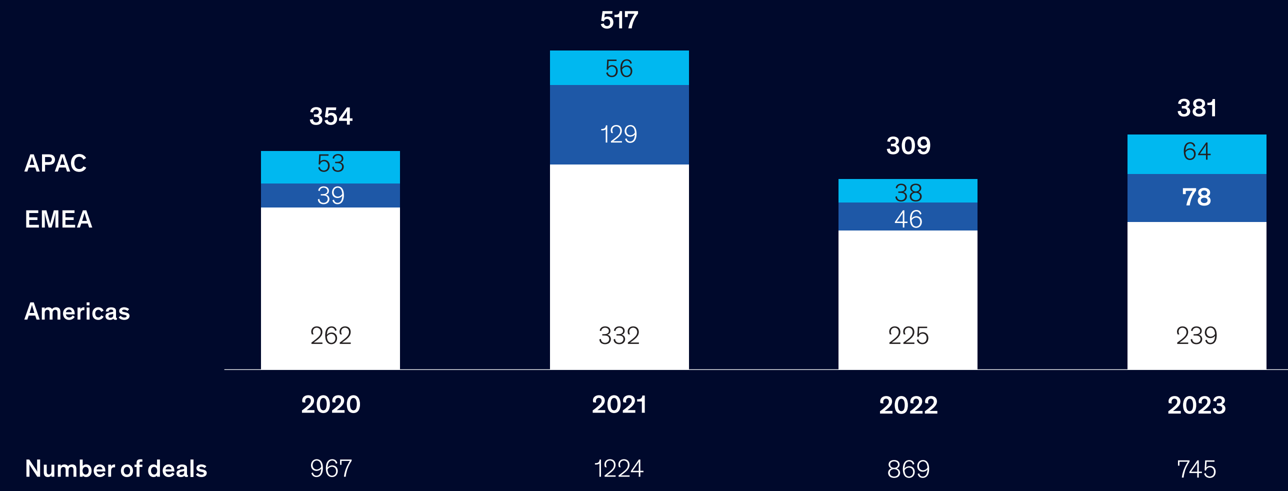
[1] McKinsey Telecom Adjacencies Survey, western Europe, May 2020.

Life sciences

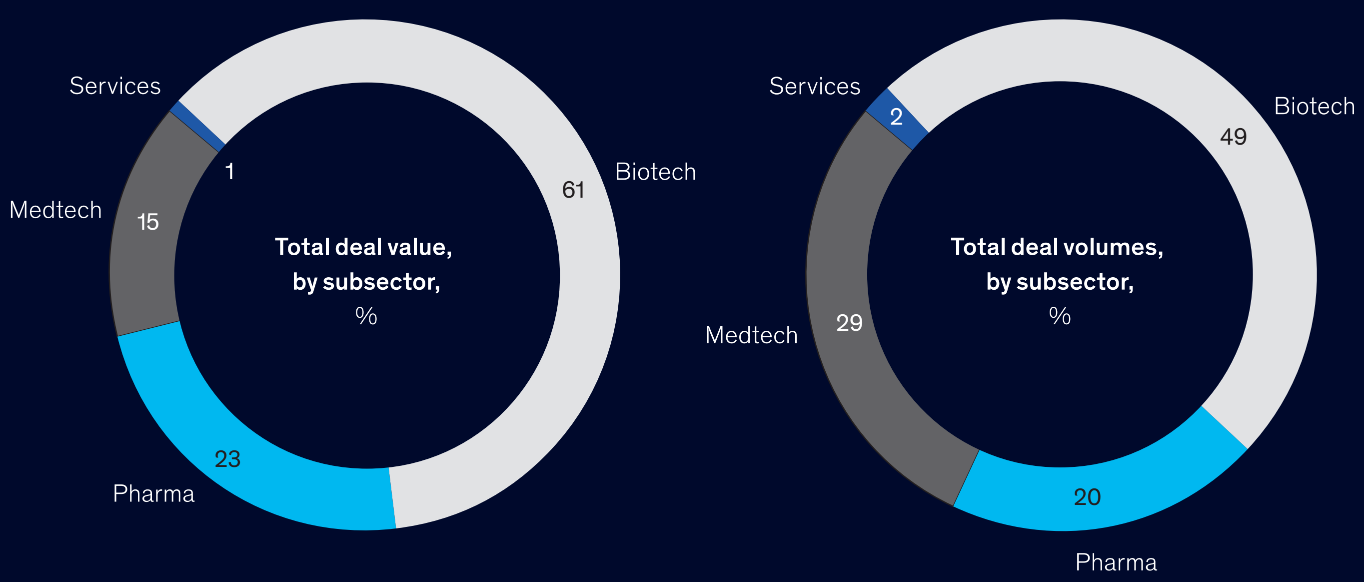
Fact sheet

Deal value

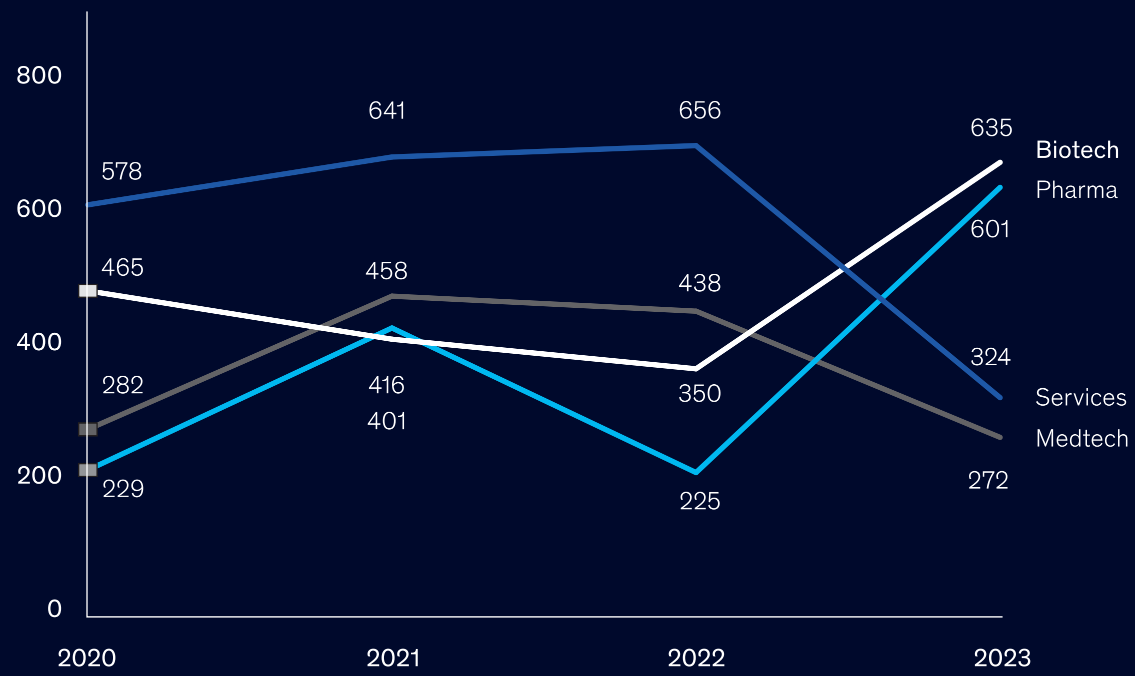
Total deal value by target region, $ billion (Jan 2020–end of Dec 2023)



Share of activity by subsector, FY 2023



Average deal size by subsector, $ million (Jan 2020–end of Dec 2023)



Industry sector updates and emerging trends

Life sciences M&A shows new signs of life

By Torsten Bernauer, Rebecca Kaetzler, Rajesh Parekh, and Jeff Rudnicki

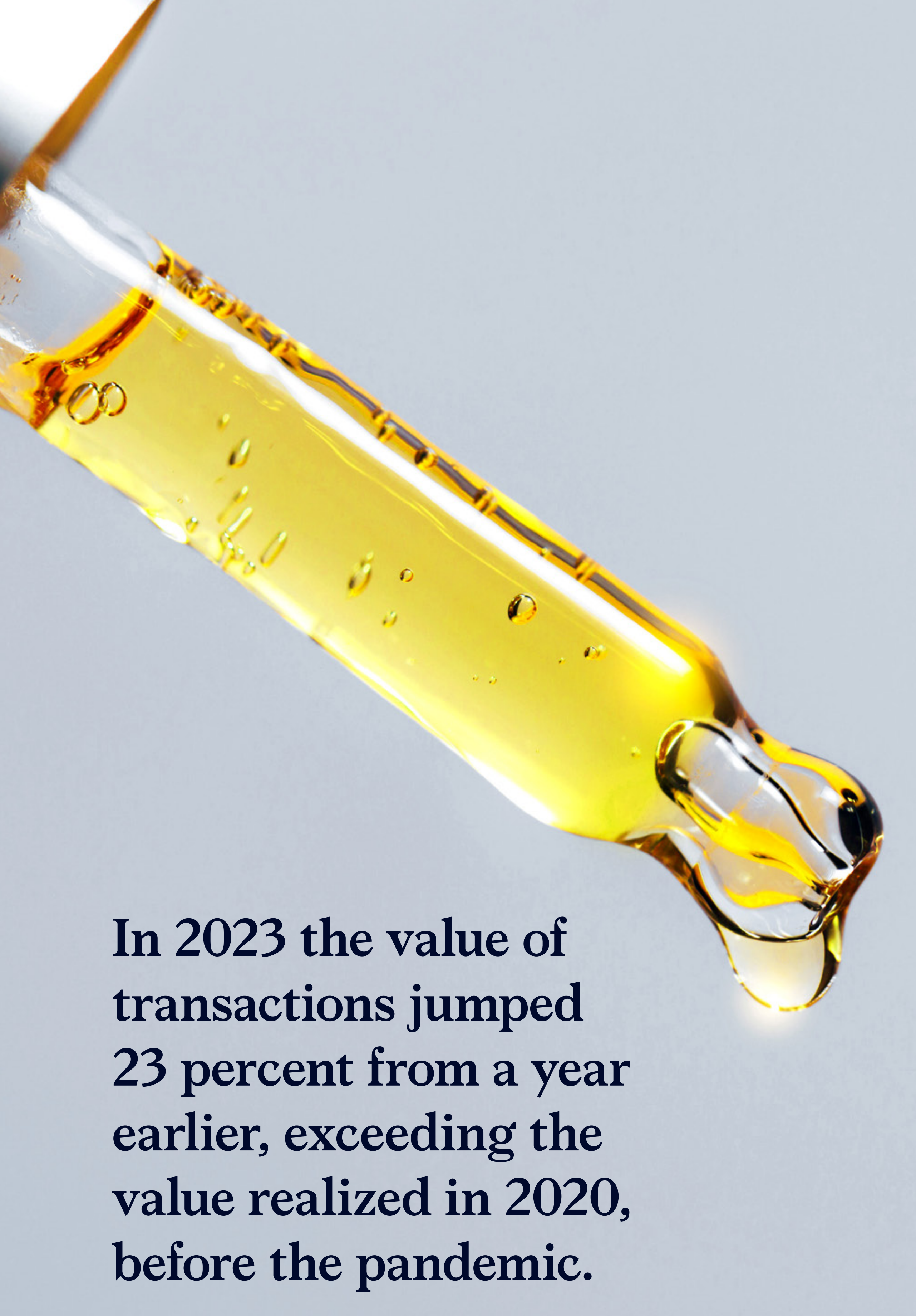
Having peaked in 2021 and plummeted as the pandemic ended, deal value revived in 2023, with pharma companies pursuing growth and medtech companies chasing profitability. These trends promise to continue in 2024.

After deal value peaked in 2021 and then plummeted in the wake of the pandemic, dealmaking in the life sciences sector revived in 2023. Acquiring precommercial biotech assets to fuel growth renewed deal success for pharmaceutical companies, and proactively shaping the business portfolio to improve profitability provided the key for medical technology companies. This year promises considerable deal activity across the sector.

Life sciences sector performance

For a decade, both the pharmaceutical and the medical technology (medtech) industries saw unprecedented M&A activity. Between 2011 and 2021, the number of deals in the life sciences sector increased 13 percent a year, and that rate doubled between 2019 and 2021. Deal value peaked at $517 billion in 2021.

While deal volume slowed in recent years, like overall M&A activity, dealmaking in life sciences saw an upswing in 2023. The value of transactions jumped 23 percent from a year earlier, exceeding the value realized in 2020, before the pandemic (Exhibit).

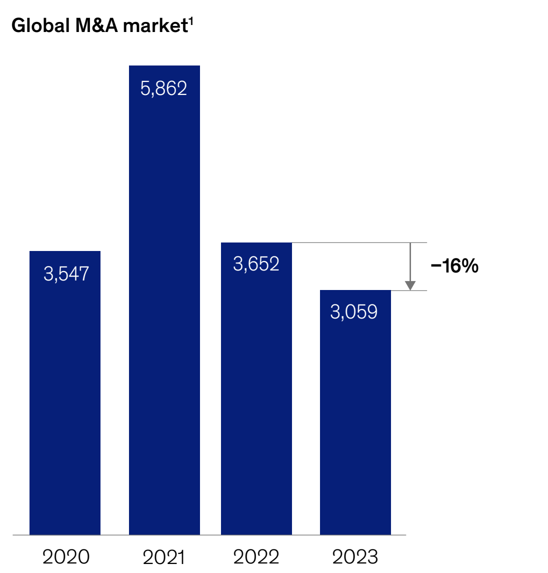


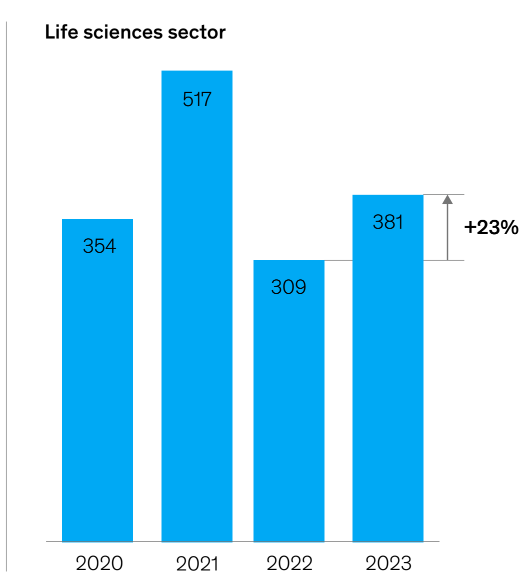
In 2023 the value of transactions jumped 23 percent from a year earlier, exceeding the value realized in 2020, before the pandemic.

Exhibit

Unlike the global M&A market, the life sciences sector saw deal activity increase in 2023.

Deal value, $ billion





[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

The pandemic shocked the economic system and brought M&A activity to a virtual halt. As the system has revived, so has the pressure on companies to deliver profitable growth. But rising interest rates have complicated debt financing. Struggling to secure financing for their pipelines, small biotechnology companies (biotechs) looked to the financial clout of big pharma companies and private equity (PE) players for R&D and product development support. Medtechs responded to the pressure by optimizing their portfolios—divesting slow-growing, less profitable assets and making growth-oriented acquisitions to improve their financial profile.

A few large transactions, like Pfizer's acquisition of cancer drugmaker Seagen for $45.7 billion in early 2023, had outsized impact on the jump in transaction value and slightly increased average deal sizes across the biotech and pharma sub-sectors. But most of the deals in the sector remained smaller biotech-related transactions aimed at generating growth. Of the 745 transactions in 2023, 91 percent had a value below $1 billion, and 54 percent fell below $100 million. Biotech and pharma deals accounted for the lion's share of deal volume—61 percent and 23 percent of value, respectively. At the same time, smaller medtech transactions delivered 29 percent of the deals, but only 15 percent of deal value.

Programmatic approach to dealmaking

Many life sciences companies have embraced a programmatic approach to M&A. They execute a steady stream of relatively small, strategic transactions—acquisitions to fill gaps in their portfolios or to enter promising new segments and divestitures to cull businesses that underperform or no longer meet their needs. As our two decades of research on M&A strategies show, this approach creates the most value across industries. On average, programmatic dealmakers enjoy higher TSR than companies making selective or large transactions.

Most of the deals in the sector remained smaller biotech-related transactions aimed at generating growth.

The programmatic approach works especially well in the pharmaceutical industry. The steady stream of small deals enables major players to make very focused acquisitions—a specific drug, for example. At the same time, their global reach can open vast markets for the products of small biotech companies.

In search of growth: Pharma deals target precommercial biotech assets

Pharma companies have an almost insatiable appetite for biotech assets. Because biotech valuations have declined almost 70 percent since their peak, many of these assets are increasingly attractive for achieving the following goals.

Accelerate R&D. Pharma companies acquiring biotech assets can reduce the projected timeline for assets in the pipeline by at least 30 percent, on average. Success requires R&D integration that taps the power of the acquirer's R&D system while preserving the target's unique capabilities.

This balance is not easy to achieve. It requires a thoughtful approach that empowers the target to continue leading the process while using the acquirer's resources and know-how to speed it up. The acquiring and target companies must align early on the priorities and the resources that will have the greatest impact on accelerating progress, as well as the greatest potential risks and ways to avoid them.

One successful acquirer made the strategic decision to ring-fence the target's R&D but bring late-stage assets into its own development pipeline to benefit from its scale and accelerate clinical development. Meanwhile, another acquirer stuck with the target's development plan and experienced significant delays, as the target's capabilities were still immature.

Accelerate launching and commercially scaling products. Pharma companies bring field forces and the ability to rapidly scale commercial presence. They can also professionalize market access, patient services, and other critical drivers of product uptake.

The best acquirers use commercial playbooks to speed the scaling of biotech assets. Acquisition by the larger company can enable the smaller company to capitalize on the scale and capabilities of the acquirer's commercial team to strengthen its launch capabilities and accelerate the timeline. But realizing these benefits requires the target's launch team to work closely with the acquirer from the beginning and to secure protection from the disruption caused by the broader integration process in order to preserve its unique capabilities.

Winners typically use a clean team to develop plans so they can start acceleration as soon as the deal closes. The clean team plays a particularly important role when the acquiring and target companies compete in a therapeutic area (TA), which prohibits them from sharing commercial information until the deal closes. The clean team can collect and analyze information like customer and geographic footprints that will be ready to share on day one.

Culture looms especially large in pharmaceutical deals because so many deals involve large companies acquiring small companies. Many small companies owe much of their success to their distinctive culture and ways of working. The acquirer is buying not only the target's tangible assets but also the talent and culture that nurture the company's innovation engine and entrepreneurial spirit. Thoughtful talent retention and cultural integration are essential to sustaining the value of the smaller company.

A recent McKinsey roundtable explored common challenges to successful cultural integration. Identifying and engaging the truly critical talent lays the foundation for success. That talent typically belongs to a few individuals who are the knowledge and innovation leaders of the biotech (versus the broad institutional knowledge of a large pharmaceutical company).

But these individuals are often "corporation-averse." They chafe at bureaucracy and a process-heavy work environment. They value having skin in the game, multitasking, making quick decisions, and taking an agile, entrepreneurial approach to getting things done. Even compelling incentives like an attractive financial package and recognition of their contributions to the biotech's success may not retain them.

Culture looms especially large in pharmaceutical deals because so many deals involve large companies acquiring small companies.

In search of profitability: Medtech deals manage the portfolio proactively

The current market environment is putting strong financial pressure on many medtech companies. Their share prices have declined over multiple periods, and investors are demanding higher returns.

Medtech companies are responding by changing their approach to value creation. Yesterday, many pursued growth by acquiring noncore, complementary assets. Today, rising interest rates are forcing them to focus on improving their margins to secure higher valuations in the capital markets. Medtech companies typically approach deals with one or more of three goals in mind.

Reshape the portfolio. Medtech companies focus on the weighted average market growth rate of the businesses in their portfolio. They look at growth across the portfolio and spin off lower-growth businesses in pursuit of higher aggregate growth. Tuck-in acquisitions at the product level are also prevalent across the industry.

Would-be acquirers are getting more selective. They are searching for specific products, innovations, or capabilities that can close the gaps in their core product categories or, more importantly, strengthen their growth profile.

Allocate capital to digital offerings. Most medtech companies are seeking to expand their value propositions beyond the benefits of their physical products by investing in digital commercial strategies and digital tools (investments often enabled by reshaping the portfolio). They are building digital health ecosystems—connecting multiple devices to create a platform where physicians and patients can interact, and data integration delivers more value for both than the physical product alone can. The results: better medical outcomes at lower cost to serve and more satisfied physicians and patients.

One multinational medtech giant built a fully integrated ecosystem that connects devices, data, applications, and services for continuous improvement of patient outcomes. The combination of specialized medical expertise with leading-edge digital technology enables evidence-based decisions that ensure more efficient delivery of the highest-quality care on a single, secure platform.

Many medtech companies are acquiring software players to accelerate their platform building. These acquisitions eliminate the need to build digital capabilities in-house and depend on yearslong internal cycles of software development.

Take advantage of more creative transaction structures. Third-party capital is increasingly available from private equity firms and some hedge funds. These firms often invest in opportunities that do not match the immediate priorities of medtech companies, but they recognize that many medtech companies have more investment opportunities than funds to invest, so they are increasingly approaching these companies about providing funding.

Medtech companies look at growth across the portfolio and spin off lower-growth businesses in pursuit of higher aggregate growth.

Meanwhile, many would-be acquirers are exploring less traditional transaction structures. Joint ventures are becoming common across the medtech industry. Companies are forming long-term strategic partnerships with digital players, co-acquiring companies with PE firms, and raising external capital to fund R&D programs—in exchange for product royalties.

M&A outlook for 2024

Several factors fueled the revival of M&A activity in 2023. Pharma and medtech companies have exceptionally strong balance sheets. They are taking a hard look at new technologies, artificial intelligence, and digital to build and expand their capabilities. Targets are increasingly willing to do transactions at stabilizing values.

These factors have staying power, and many life sciences companies are publicly hunting for deals and seeking to shed noncore assets in their quest for value creation. This year promises an active market for M&A in the sector.

To prepare to play and win in this market, life sciences companies should do some soul-searching. For pharmaceutical companies, this means asking: What assets will build my pipeline and make me a leader in fast-growing segments like cell and gene therapy and biologics? Can my capabilities make the deal economics work?

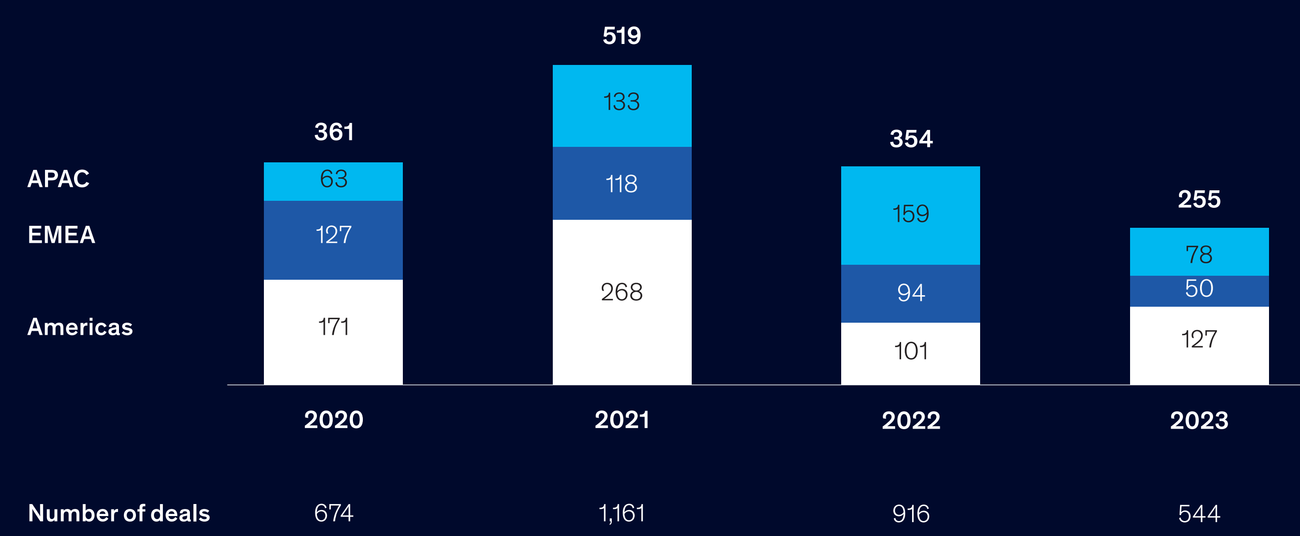
For medtech companies, this means asking: How can I fuel growth and access faster-growing market segments? Can digital capabilities accelerate my entry into solution businesses? Should I spin off portions of my portfolio?

Financial services

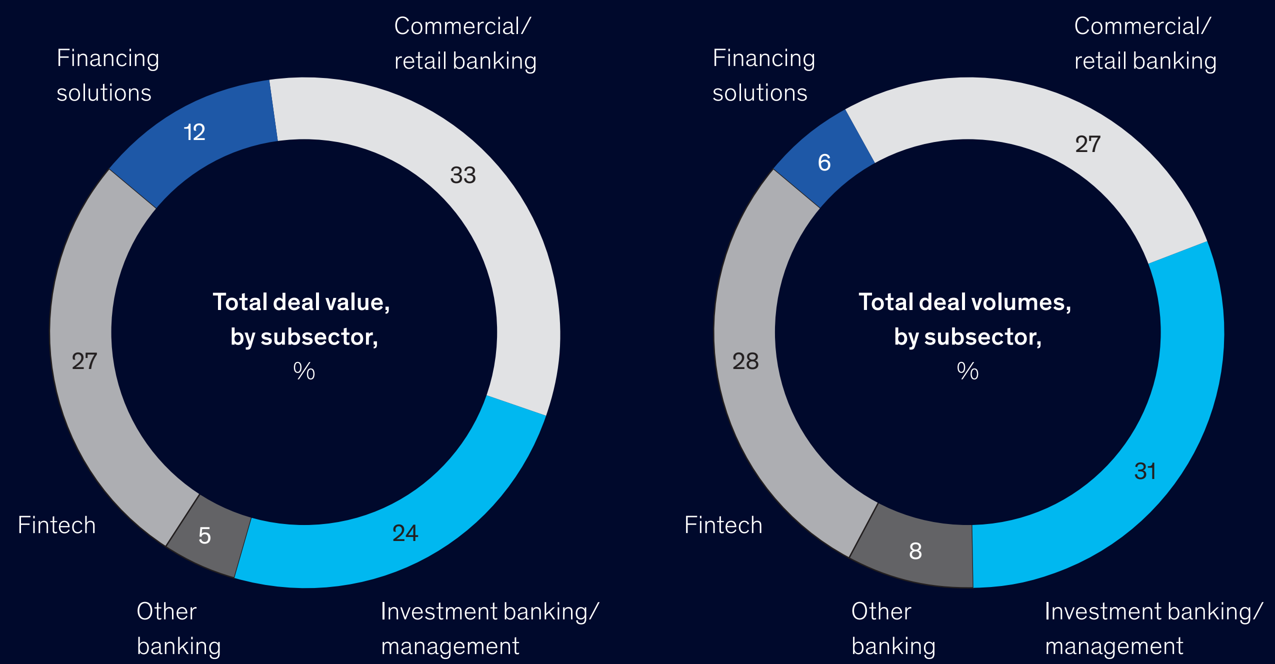
Fact sheet

Deal value

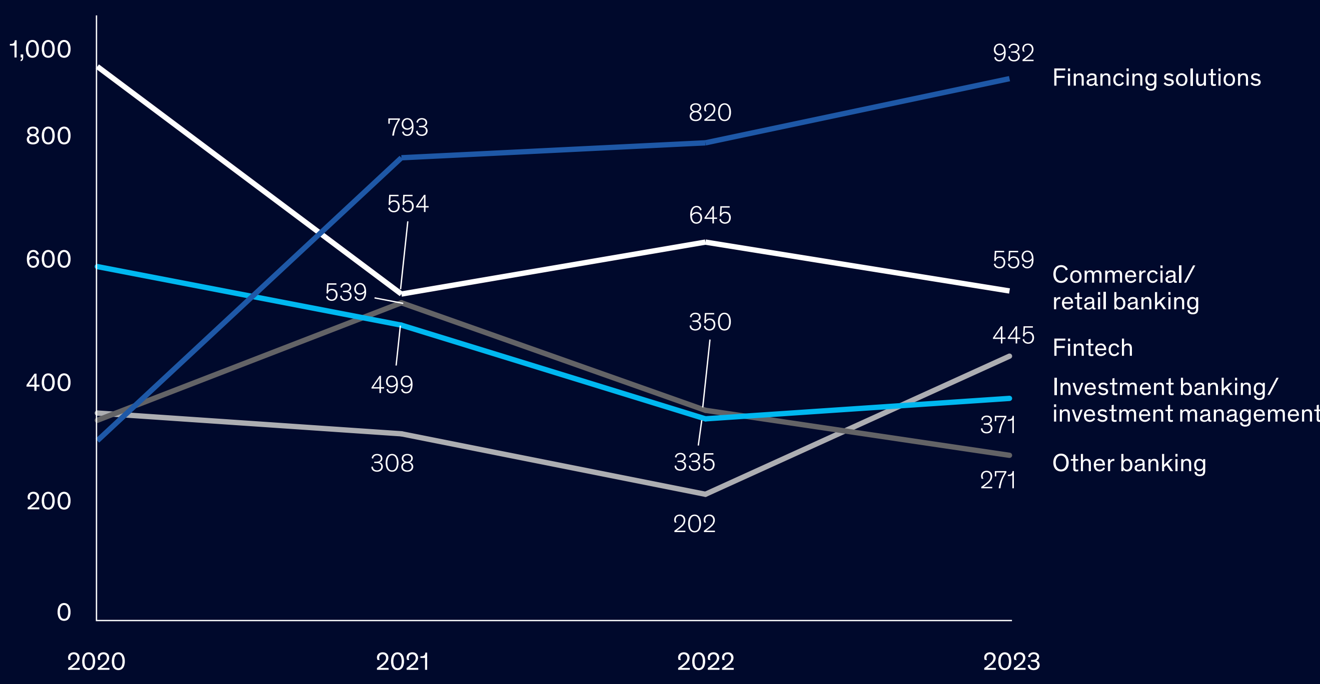
Total deal value by target region, $ billion (Jan 2020–end of Dec 2023)



Subsector activity, FY 2023



Average deal size by subsector, $ million (Jan 2020–end of Dec 2023)



Rebound of financial services M&A: Focus on growth and capabilities

By Nadine Hussein, Fadi Najjar, Mieke Van Oostende, and Andrew Zarrilli

After the 2023 spike in large deals and bank failures, the outlook for financial services M&A appears bright and active—particularly for acquirers with the skills to execute complex deals.

Mergers and acquisitions remain a high priority for financial services players heading into the mid-2020s. The number of deals has declined since the historic pace of 2021, but average deal size has increased by 11 percent over the past two years based on Dealogic data. Notable deals in 2023 included UBS's acquisition of Credit Suisse, JPMorgan Chase's deal for First Republic, Nasdaq's acquisition of Adenza Group, Reliance's spin-off of Jio Financial Services, and FIS's sale of a 55 percent stake in Worldpay to GTCR.

Our analysis shows that more than half of the 40 largest deals in 2023 were meant to rebalance portfolios or acquire assets of failing banks: 40 percent were divestments, carve-outs, and geographic exits, and 18 percent were acquisitions of the assets of collapsing US and European banks. About 20 percent were scale transactions meant to improve efficiencies and top-line growth; 22 percent were aimed at acquiring products, technology, or talent.

The industry needs M&A to grow, innovate, and become more resilient.

Will the same trends continue to shape dealmaking in 2024? Most of the financial services executives we talk to across financial subsectors in Europe, the Middle East, and Africa (EMEA) expect M&A to remain a high priority and to maintain or gain momentum. Most believe capability-building and scale efforts—including international growth and expansion into adjacencies—will be the biggest drivers in 2024.

And while most players say they have clear M&A strategies, we have found that some best practices have yet to become the norm, such as standing up teams to identify M&A targets, routinely scanning the market for transaction opportunities, and building the teams and tools to navigate the intricacies of complex deals.

Some best practices in M&A have yet to become the norm.

Scale and capability deals will dominate as banks seek avenues for growth and make selective carve-outs

We expect powerful industry trends to bolster M&A activity in banking—especially scale, capability, and carve-out transactions. According to the latest McKinsey Global Banking Annual Review, higher interest rates boosted the sector's profits in 2023, with returns on equity in 2023 reaching about 13 percent—well above the average of 9 percent since 2010.

Returns varied widely, of course: some institutions delivered record performance, putting them in position to consider acquisitions of the many banks around the world that struggled to achieve returns above their cost of capital.[1] Most deal rationales will fall into three categories: building scale, acquiring capabilities, or carve-outs to rebalance portfolios.

Building scale

Many banks with strong returns are now looking for strategic opportunities, including M&A, to enhance their positions and gain scale to boost efficiencies. Many of the laggards, meanwhile, will explore ways—such as divestitures and outright sales—to raise profits and even survive. We expect this trend to be more prevalent in North America, the Middle East, and Asia–Pacific, where the banking sector tends to be more fragmented.

In Europe, large-scale transactions—especially cross-border deals—remain limited due in part to the complexities of local licensing regulations, liquidity, and accounting implications, including fair value adjustments. Under such conditions, most European banks prefer organic expansion over inorganic growth. Netherlands-based ING, for example, has long followed an organic expansion strategy and now has a presence in six European countries.

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[1] Based on McKinsey Panorama and S&P Global data.

Most M&A activity will likely continue to focus on domestic targets, but recent advances in the banking business model may enhance the value of some cross-border transactions. Such deals can provide diversification and immediate access to local talent, along with quicker value realization from accelerated market entry compared with organic growth.

Leading banks are addressing many of the challenges that have historically hindered such deals. They're adopting cloud technology, for example; offering innovative digital journeys that can appeal to customers across borders; and most recently harnessing generative AI to improve customer service. As these technologies mature, they may offer European banks new avenues for growth and collaboration, accelerating the shift toward a more dynamic and interconnected financial ecosystem.

Unlike rescues, where speed is of the essence, scale deals meant to boost efficiency and growth require acquirers to determine how to preserve the fundamental value drivers of the target while overlaying their own management practices, culture, and commercial strategies. A carefully planned integration accounts for and captures the strengths and synergies of both organizations, preempts or overcomes regulatory obstacles, preserves critical talent, and manages the technology integration.

Acquiring capabilities

Most banks pursuing growth will seek not just scale but capabilities—especially technology—to speed delivery, improve customer experience, lower cost to serve, and digitize business models and distribution. Many banks will aim to acquire strong platforms, tech talent, and robust product portfolios that will strengthen their fee businesses. Ohio's Fifth Third Bank, for example, acquired Rize Money, an embedded payments platform, in May.[2] Tokyo-based Mizuho Financial Group completed its acquisition of Greenhill, an M&A and restructuring advisory firm, in December.

Many fintechs may look like great targets for banks seeking to build capabilities, especially in technology and talent, and the sharp drop in fintech valuations in 2022 might appear to signal that the subsector is ripe for transactions.[3] In our experience, however, most banking leaders still view fintechs as expensive and lacking clear paths to profitability, and remain skeptical about the goodwill these acquisitions could create.

The truth is that many large banks struggle to integrate fintechs and would rather partner with them than acquire them. Indeed, we find that the success of fintech acquisitions often depends on talent retention and striking the right balance between full integration into the company and keeping some elements independent to preserve value and speed of delivery while sustaining innovation.

Private equity (PE) capital will also play an important role in fintechs, especially B2B fintechs and those with business models attractive to more conservatively minded investment committees. (For more on this topic, please see the sidebar, "How will private equity deploy dry powder in the coming year?")

[2] "Fifth Third announces acquisition of Rize Money, Inc.," Fifth Third Bank press release, May 22, 2023.
[3] A sustained overall valuation drop, with the public market fintech index F-Prime down by about 48 percent from 2021 to 2023; see also *Q3 2023 quarterly fintech insights*, Financial Technology Partners, October 2023.

The future—and value—of carve-outs

In their ongoing search for improved return profiles, banks will continue rebalancing portfolios with divestments, carve-outs, and exits from non-core geographies—although perhaps at a smaller scale than in 2023. Some will seek to simplify their geographic footprints to focus on core markets. Others will divest or carve out units that may generate more value as standalone entities, such as payments, capital markets, and securities businesses. In these and some other businesses, banks may face a simple choice: scale them up significantly or make an exit.

While many observers believe carve-outs invariably provide more total shareholder returns (TSR), the latest research by our Strategy & Corporate Finance practice suggests this is no longer true. We have found that only half of large carve-outs generate excess TSR; the remainder underperform in their sectors, averaging zero median excess TSR. While carve-out hypotheses are sound for most deals—increased strategic focus, fit-for-purpose operating model, and optimized capital structure—executives struggle to operationalize them.

Expectations are high for deal activity in 2024 and beyond.

Consolidation and capabilities in asset management

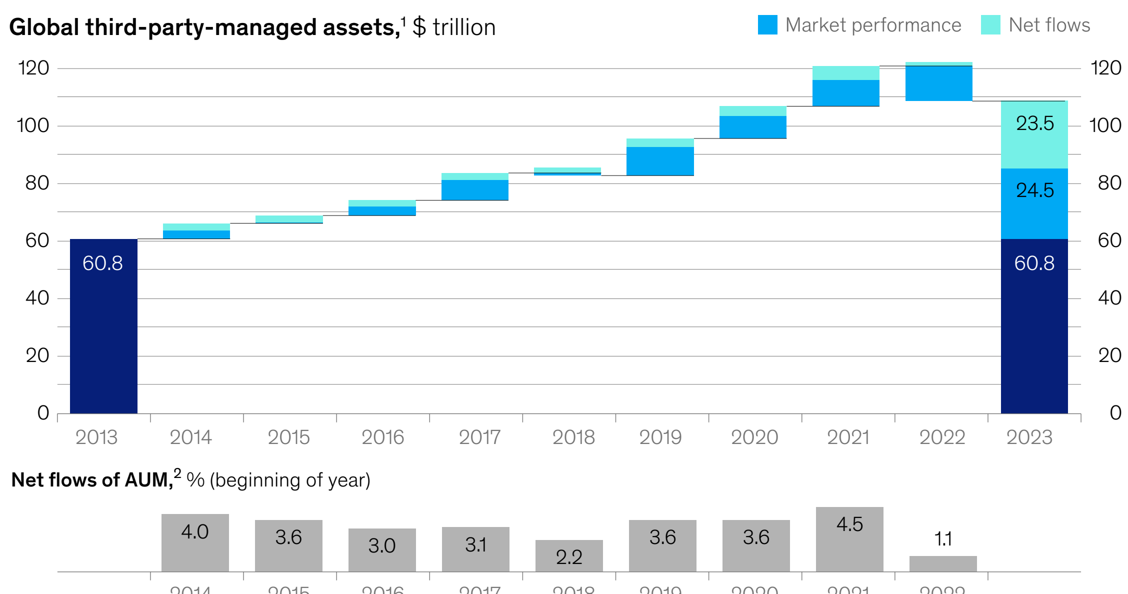
Asset managers have been grappling with cost pressures, margin constraints, and the largest decline in assets under management in almost a decade—about 10 percent in 2022 (Exhibit). Research by McKinsey's Strategy & Corporate Finance Practice shows that these firms' profit margins dropped five percentage points from 2021 to 2022.[4] As a result, asset management boutiques and midsize firms need to evaluate their scale, specialization, product mix, and overall ability to withstand pressures from larger firms while maintaining profitability.

Scale deals are already underway, and we expect them to continue; consolidation has reduced the number of asset management firms ranked in the Pensions & Investments money managers directory over the past decade.[5] Capabilities will dominate many deal theses as asset managers seek to expand into new products such as alternatives and private credit through partnerships or more traditional acquisitions, creating streams. Franklin Templeton acquired Putnam Investments, for example, to expand into alternative products and retirement plans after years of asset outflows at both firms.[6]

[4] Based on McKinsey Performance Lens Global Growth Cube data as of 2022, 2022 McKinsey Performance Lens Global Asset Management Survey, and public filings.
[5] Tracked in the Pensions & Investments money managers directory, with a total decline from around 650 in 2013 to 430 in 2023.
[6] Dan Culloton and Russel Kinnel, "A merger of equals? Two mediocre fund companies combine," Morningstar, May 1, 2023; "Asset and wealth management revolution 2023: The new context," PwC, July 7, 2023; and "Investors," Franklin Templeton, accessed March 5, 2024.

Exhibit

Global assets under management fell by about 10 percent in 2022.



[1]Includes 42 countries in Africa, Asia–Pacific, Central and Eastern Europe, Latin America, Middle East, North America, and Western Europe.
[2]Assets under management.
Source: McKinsey Performance Lens Global Growth Cube

Asset management valuations—now at a price-to-earnings ratio of 26:1, according to the latest McKinsey Global Banking Annual Review—will continue to pose significant obstacles to dealmaking. The problem is an excess of potential acquirers and a shortage of willing sellers. Successful acquisitions in this space require a continuous focus on retaining top private bankers, investment advisers, product specialists, and other investment talent.

Looking ahead

What will it take to benefit from an uptick in M&A activity—and turn it into sustained growth? We believe the most effective acquirers will see M&A as core to corporate strategy, institutionalize M&A capabilities for systematic deal screening and due diligence, and build the tools and execution muscle for rigorous planning and faster value capture.

To start, financial services players should strengthen the sophistication of their M&A capabilities. Too many players wait for opportunities to enter their radar rather than designating personnel or establishing specialized M&A teams to continually explore potential transactions, divestitures, and product acquisitions. A proactive, programmatic approach to scanning the market is crucial to staying ahead of the curve and maintaining alignment with strategic principles.

How will private equity deploy dry powder in the coming year?

Private equity firms now hold more than $2 trillion in dry powder. The central questions are whether they are willing to deploy it and where. Many firms' due diligence processes are becoming markedly more rigorous, and most investment committees are seeking far more compelling business cases amid elevated interest rates.

A debate is underway about what kinds of businesses—capital heavy or capital light, for example—will generate the biggest risk-adjusted returns. Investors want to gauge each business model's long-term viability and resilience during turbulent times. Many will continue to focus on less-regulated, capital-light businesses such as payments, which is technology rich and subject to little direct regulatory scrutiny. But in the current interest rate environment, liability-generating business models can look more interesting. Business-to-business fintechs will likely draw more attention, particularly relative to B2Cs that typically incur high customer acquisition costs and are more sensitive to macroeconomic fluctuations and inflationary pressures.

Once M&A is at the center of strategic thinking and resource allocation, successful financial services players fine-tune their deals to maximize value. They develop detailed value-capture targets, for example; pursue them relentlessly; and stay committed to rigorous planning. They do not succumb to premature celebration: the real work begins after the deal is closed, and it requires ongoing attention and meticulous execution.

In the wake of an acquisition, organizational priorities make or break the success of the transaction. They go beyond immediate financial gains to include safeguarding organizational culture and the strengths that prompted the strategic move in the first place, retaining top talent, aligning leadership, and designing a proper operating model.

Financial services M&A activity may not soon return to its recent historic highs, but expectations are high for considerable deal activity in 2024 and beyond, driven by the industry's need to grow, harness new technologies and drive innovation, meet consumers' ever-rising expectations, and become more resilient to macroeconomic and geopolitical volatility.

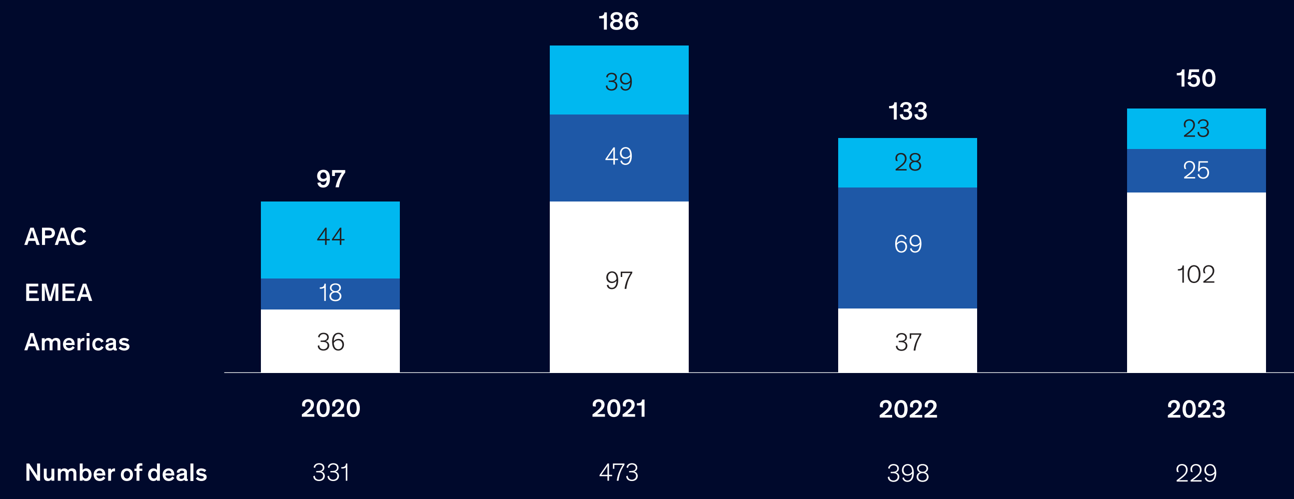
The authors wish to thank Igor Yasenovets for his contribution to this article.

Consumer goods

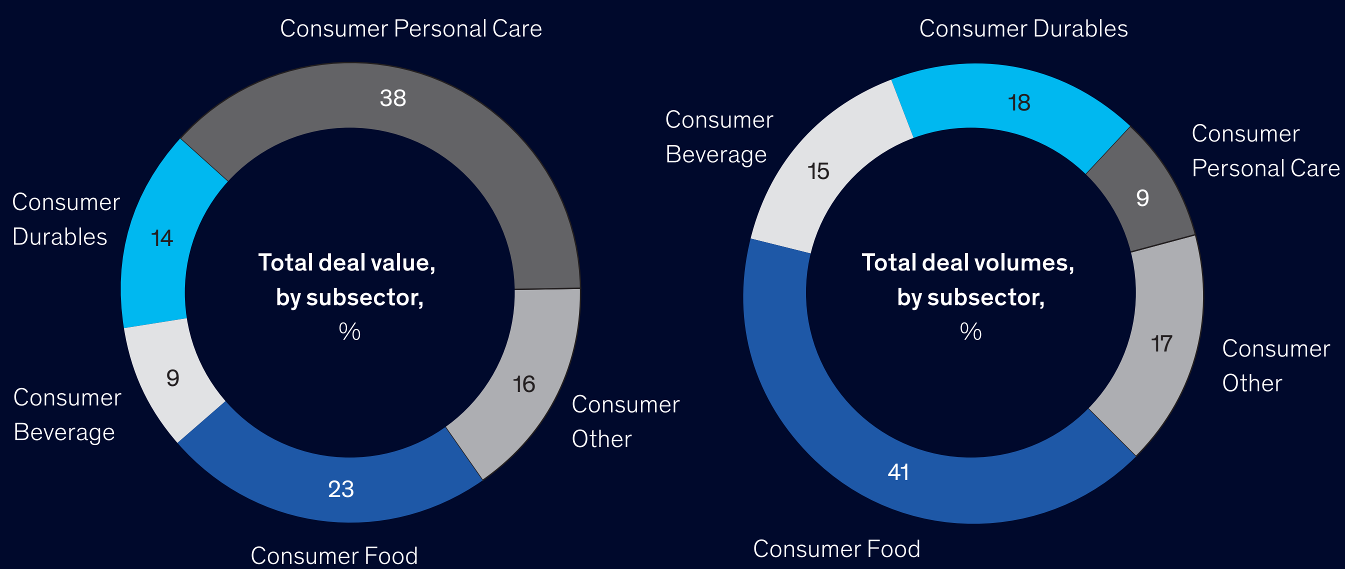
Fact sheet

Deal value

Total deal value by target region, $ billion (Jan 2020–end of Dec 2023)

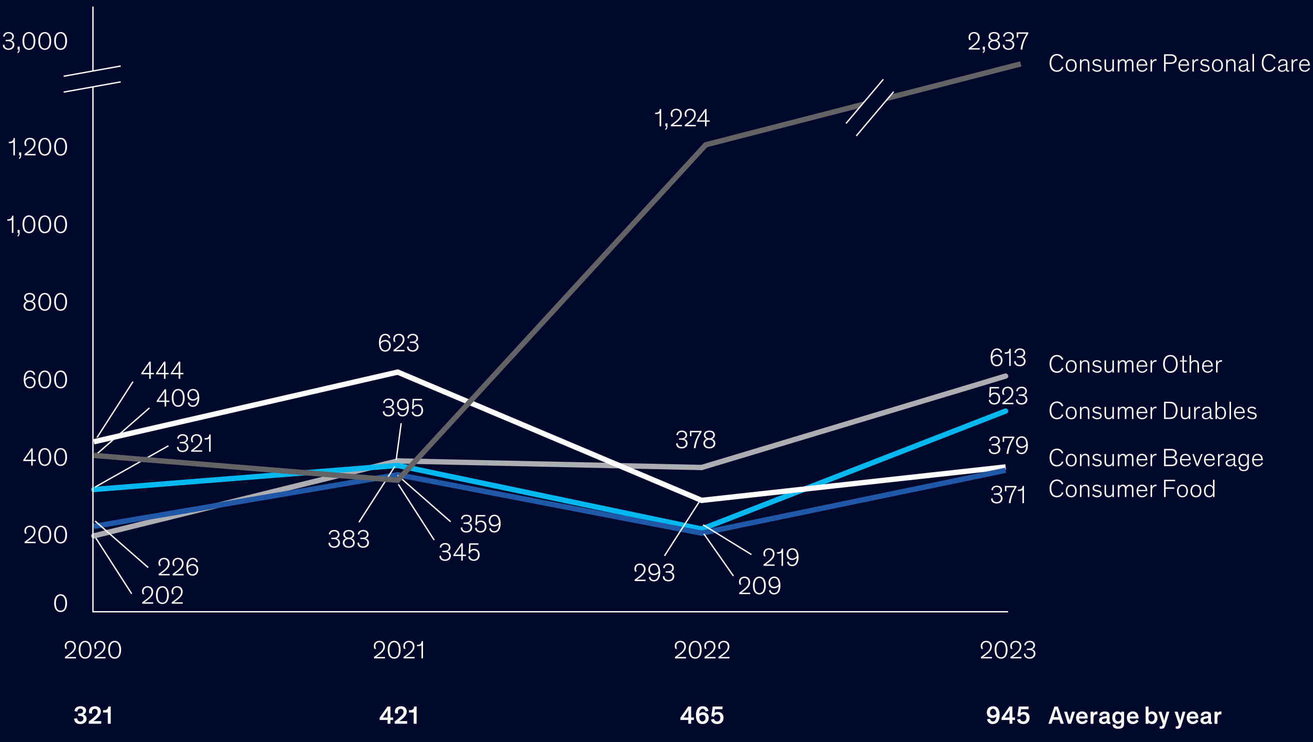


Subsector activity, FY 2023



Note: ~70% of the deal value for Consumer Personal Care is related to the $42B Kenvue spin-off

Average deal size by subsector, $ million (Jan 2020–end of Dec 2023)



Industry sector updates and emerging trends

Consumer goods: A changing landscape for successful M&A

By Harris Atmar, Jeff Cooper, Stefan Rickert, and Rodrigo Slelatt

Buffeted by economic trends, consumer goods companies have diversified their M&A strategies, with winners balancing growth and margin expansion. Success ahead requires integration tailored to each deal’s thesis.

Over the past decade, programmatic mergers and acquisitions—in which companies execute a series of smaller deals based on a specific business case—have consistently generated more value than other M&A strategies. But, while programmatic M&A continues to create value, the strategic focus of consumer goods M&A programs has shifted fundamentally, in line with macroeconomic trends.

Since the start of the previous decade, players seeking growth have moved from the traditional approach of strengthening their core portfolios through large consolidation deals to multiple smaller deals for high-growth, “challenger” companies. This shift was most pronounced from 2018 to 2021, when companies were hyper-focused on top-line growth. However, the recent inflationary environment has prompted consumers to reduce purchasing volumes in about 90 percent of consumer goods categories, causing investors to renew their focus on the bottom line. This shift is evidenced in consumer companies’ M&A strategies by an uptick in traditional consolidation deals, as such deals emphasize cost synergies and margin expansion.

Looking ahead, we expect the most successful players to develop a hybrid deal approach that couples investments in small, high-growth brands to enter attractive long-term categories with portfolio consolidation acquisitions to drive the bottom line in core categories. To ensure success with this hybrid approach, acquirers will need to look differently at how they integrate and support their targets.

Acquirers will need to look differently at how they integrate and support their targets.

Trends in consumer goods M&A

With changing macroeconomic trends in recent years, companies have had to shift their M&A strategies to adapt. To understand the M&A landscape and what these companies are trying to achieve in M&A, our analysis below can be viewed through three different lenses:

1. **Deal volume and value.** This first lens involves the assessment of deal volume and value within specific sectors, which yields insights into the quantitative aspects of M&A activities within the consumer goods sector.
2. **Deal frequency.** This lens is crucial for understanding whether companies opt for a consistent, programmatic approach involving a series of deals, or choose more infrequent dealmaking involving sporadic medium or large transactions.
3. **Deal strategy.** The deal strategy lens covers the strategic intent behind consumer goods M&A deals. It involves categorizing deals into archetypes based on dominant strategic motives, providing a qualitative perspective on the evolving landscape of consumer goods M&A.

Examining consumer goods M&A trends through these lenses enables a comprehensive assessment of the sector's dynamics. The lenses can serve as a guide to make sense of recent M&A activity.

Shifts in deal volume and value

After low deal volume and value in the COVID-impacted year of 2020, the consumer goods landscape experienced a marked shift in M&A deal volume and size. In 2021, as sizable assets in the sector became both scarce and prohibitively expensive, companies strategically pivoted toward a higher-volume, lower-deal-value approach. This movement peaked in 2021, which saw approximately 470 consumer goods deals globally. Afterwards, deal volume decreased significantly, falling to roughly 230 deals in 2023. (See fact sheet above.)

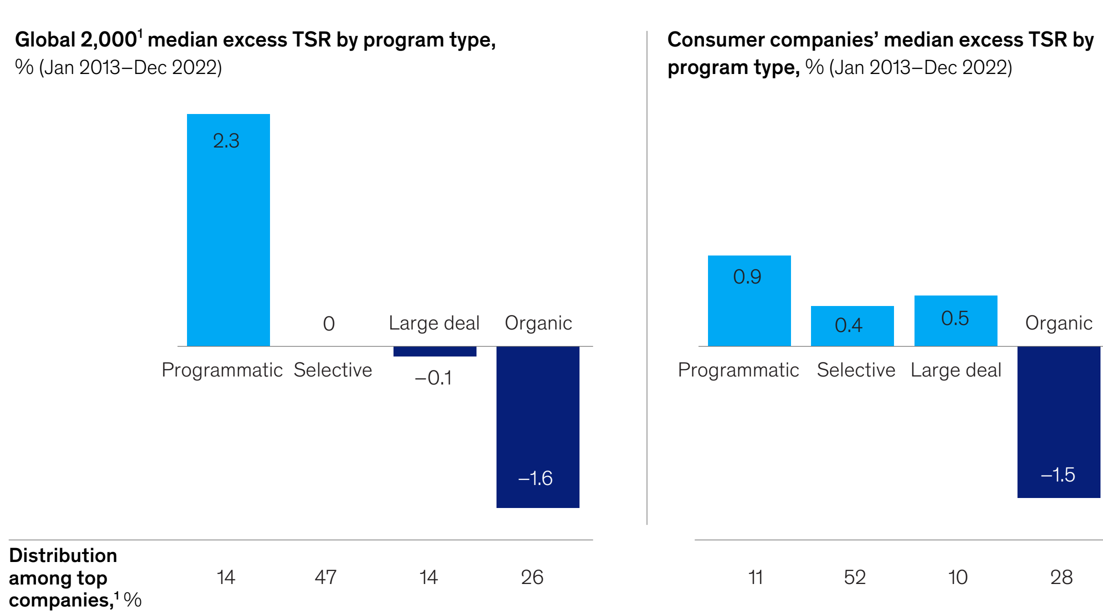
The share of activity by sub-sector varied across deal volume and value. (See fact sheet.) As for volume, the largest single category remained food, constituting about 40 percent, while beverages and durables collectively accounted for an additional 30 percent. Personal care remained the smallest segment. As for deal value, personal care was the largest at 38 percent, although this was driven mainly by large spin-offs of pharmaceutical companies' consumer businesses. Prime examples are Johnson & Johnson's $42 billion spin-off of Kenvue (2023), and GlaxoSmithKline's $31 billion spin-off of Haleon (2022).

Shifts in deal frequency

Consumer goods M&A performance varies significantly in terms of deal frequency. Notably, programmatic M&A strategies emerged as consistent drivers of higher returns with lower risk during the period from 2013 to 2022. The success of programmatic approaches is highlighted by their ability to deliver excess annual total shareholder return (TSR) of 2.3 percent, outperforming all other strategies across sectors. In the consumer goods sector, the excess TSR of programmatic strategies was 0.9 percent, compared with 0.4, 0.5, and negative 1.5 percent, respectively, for selective, large-deal, and organic strategies (Exhibit 1). This gap in performance across industries has been widening, underscoring the efficacy of programmatic M&A.

Exhibit 1

A programmatic approach to M&A tends to create higher returns than other approaches.



Note: Figures may not sum to 100%, because of rounding.
[1]Companies that were among the top 2,000 companies by market cap on Dec 31, 2012 (more than $2.5 billion), and were still trading as of Dec 31, 2022; excludes companies headquartered in Africa and Latin America.
Source: Global 2,000 (2022); S&P Capital IQ; McKinsey Value Intelligence

Furthermore, across sectors, programmatic dealmakers with the *most* deals earned the highest returns. Seventy percent of them outperformed programmatic peers who made fewer deals.

This approach is associated with long-term success as well, as evidenced by the fact that most of the top 100 largest firms globally, across all sectors, employ programmatic M&A over a long period of time, such as ten-plus years. Many of the most successful programmatic M&A players in consumer goods also build formidable in-house M&A capabilities for M&A strategy, deal execution, and integration.

All of this demonstrates the importance of successful inorganic growth strategies and execution as well as how the market rewards the players that do it most—and do it better.

Shifts in deal strategy

Our analysis splits consumer goods M&A deals into four strategic archetypes:

— **Portfolio consolidation**—strengthening the core with established brands to build scale

— **Adjacency plays**—betting on companies adjacent to the acquirer's core business

— **Data and tech enablement**—adding capabilities in these areas to support growth

— **Challenger brands**—buying smaller, fast-growing companies in the acquirer's core business.

Our research indicates a fundamental shift in the use of these archetypes during the past decade. The shift has significant implications on how M&A in consumer goods will evolve in the future, as well as what it takes to successfully execute inorganic strategies.

From 2013 to 2018, companies mostly pursued large deals within core categories (what we call portfolio consolidation). From 2019 to 2022, they moved to top-line growth at all costs: they leveraged low interest rates to snap up multiple small, high-growth challenger brands, data and tech enablement companies, and adjacent players to gain access to new categories.[1]

However, in 2023 the data starts to show a return to portfolio consolidation (Exhibit 2). This change has been driven by a combination of lower asset valuations and investors' increased focus on the bottom line versus growth. Portfolio consolidations naturally offer more "bankable" cost synergies and are easier to integrate into existing large-company operating models than smaller, high-growth brands.

Outlook for the next wave of M&A

As we look to the future of consumer goods M&A, we believe the landscape will continue to be shaped by evolving macroeconomic conditions and their implications for shareholder expectations. We see three likely evolutions that will define the next wave:

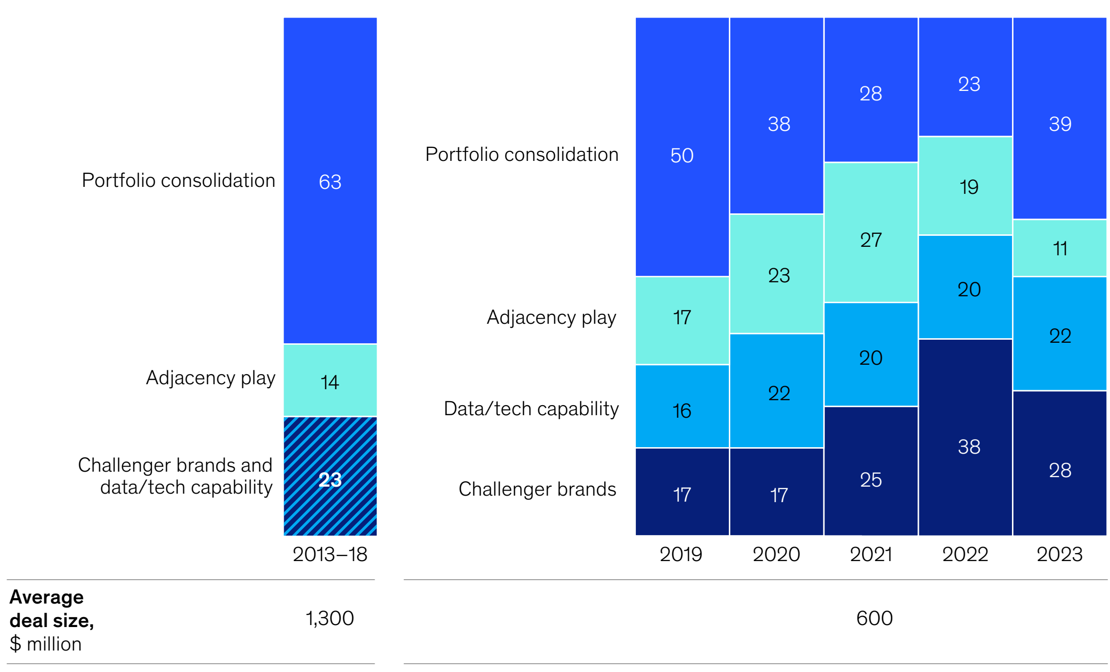
1. **A shift away from "growth at all costs."** As companies increasingly pursued adjacency plays and challenger brands leading up to 2022, they were largely driven by pursuit of growth and cautious about damaging any of their targets' "secret sauce"—the things that make them unique. This resulted in less integration and fewer cost synergies. With inflation boosting input costs, and consumers becoming less accepting of higher prices from cost pass-throughs, companies will increase their cost synergy ambitions.

[1] "The next wave of consumer M&A: Executing for value," McKinsey, October 21, 2019.

Exhibit 2

M&A trends in consumer goods are shifting toward historical norms.

Share of deals by deal archetype, % of deals



Source: Global 2000 (2022); McKinsey Value Intelligence; S&P Capital IQ

2. **Reduced multiples will re-invigorate portfolio consolidation.** High consumer goods multiples over the past four to five years have made large industry consolidation deals prohibitively expensive. While the size and growth profile of some assets will make them inaccessible, the challenges to consumers' wallets today will affect the outlook for many consumer goods companies and suppress acquisition prices for those seen as vulnerable. We expect this to open up opportunities for scaled, top-tier players to make a few large, transformative deals focused on portfolio consolidation, as evidenced by the clear uptick in this strategy in 2023.

3. **Reduced deal volume compared with 2021–2022, but an uptick in 2024.** Higher interest rates than in the past decade will limit the sheer number of deals that companies can pursue, as leveraged positions present a challenge to company economics. While we do not expect higher rates to limit everyone from pursuing programmatic strategies, we do expect that they will continue to suppress deal volume in the near term compared with averages of the past five years. They will also reinforce the role of cost synergies in deal theses. As a result, strategic buyers will have a double advantage over private equity suitors as they rely less on leverage and have a greater ability to extract combinational synergies. Hence, we see a potential

increase in deal volume coming from strategic players—but if rates continue to fall in 2024, this trend could revert.

Winners' recipes for getting it right

The move from portfolio consolidation toward smaller, more frequent deals reflected a growing awareness that programmatic M&A is a more viable strategy than others, with higher chances of success. Now, even with a recent trend toward portfolio consolidation, companies that build ongoing M&A capabilities outperform those that conduct episodic M&A. Our analysis draws on our experience with consumer goods companies, augmented by in-depth interviews of executives at several successful acquirers. We identified three components of successful M&A in the consumer goods sector.

Shift from what you gain to what you give

After years of trial and error, many executives have recognized that a deal is not just about what a target can do for them, but also what they can do for the target. These elements can be resources, funds, or broader distribution to help scale brands. Also important are front- and back-office capabilities to professionalize the target's operations, among other attributes. For example, one global consumer goods company helped to stabilize the supply chain of its newly acquired juice company. As one executive summed it up: "They had an old plant with bad co-packers. We had capacity elsewhere. It was a good synergy to bring them into our facility." Similarly, in a transatlantic food integration, the acquirer had a clear long-term vision of how its best-in-class R&D capabilities could refresh and refurbish the target's product offering while staying in line with its brand heritage.

Choose the right degree of integration

We have seen four integration models emerge in consumer goods, each with its own pros and cons.

1. **Full integration:** The acquired brands become undifferentiated from other brands in the acquirer's portfolio. This establishes comprehensive control, boosts opportunities for cost synergies, and can refresh the legacy portfolio. However, integration can hinder company momentum, and it risks destroying value if not managed properly and at the right pace. Moreover, key talent may disengage or leave.

2. **Partial integration:** Integration is limited—typically to back offices, systems, and selective avenues of growth. This option preserves existing commercial capabilities while yielding some efficiencies, as well as growth avenues such as new channels. It helps to retain talent and culture and can infuse legacy brands with new thinking. It typically ends up in customized operating models, depending on the functional strengths of both the buying company and the target company. However, such models are difficult to sustain, as the perceptions of consumers and talent may change, and applying the lessons from the growth brand across the portfolio can be challenging.

3. **Accelerator:** The company creates a "new ventures" business unit to build a portfolio of growth brands, with some targeted support such as R&D and procurement. This option lowers the risk of business disruption and can retain and attract talent, unlock innovation, and accelerate growth. It also may limit control and oversight, as well as operational synergies,

and it requires new capabilities the company may not have.

4. **Fully stand-alone:** Acquirers keep the target company fully independent. This option protects assets such as innovation, capabilities, and ways of working. However, it limits the potential to support overall growth, operational synergies, and control and oversight.

Some successful integrators suggest refraining from seeking operational efficiencies in the first few months.

Experienced integrators often agree that, when buying smaller—but still significant—companies, partial-to-full integration can provide the right level of collaboration and coordination while enabling the target to safeguard its "secret sauce." Ingredients in the sauce often include tangible assets such as innovation, digital marketing capabilities, and sales relationships. There may also be intangible ingredients such as culture, mindset, and employee affiliation to a brand or vision. Successful integrators often note that it is difficult to assess employee passion during the due diligence phase, but it is still important. "Purpose is as important as profitability," said one integrator.

As a result, successful consumer goods integrators are careful in assessing how they will use their company's scale and experience to serve the needs of their targets. Common approaches include assigning acquirer supply chain capacity, selectively harnessing the acquirer's broader set of sales relationships, and using the acquirer's scale to amplify brand-led innovation. Some successful integrators suggest refraining from seeking operational efficiencies in the first few months until they truly understand the business. However, almost all executives we have consulted agree that support functions can be integrated, and support systems harmonized. In the current macroenvironment with a focus on margins, it would not be surprising to see companies integrating assets that were left stand-alone in the past.

Of course, every deal, large or small, is different, and each has its own strategic rationale, guiding principles, and competing priorities. While we have observed full and partial integrations to be the most common integration approach, executives should consider the advantages of all four to determine what is best for each deal.

Build M&A capabilities that are unique to consumer goods

Consumer goods companies that aspire to become more active acquirers need to build an M&A engine to proceed in a strategic, proactive, and disciplined way. This capability has several foundational elements.

— **Trend prediction skills.** The M&A strategy and deal-sourcing function should rely heavily on understanding next-generation consumer preferences and trends. Based on this

understanding, the company can ask itself some important questions: Is my portfolio aligned to the trends? Where do I want to play? How can I win? The answers will establish the M&A blueprint, which is imperative to delineate the boundaries of the playing field and avoid wasting time on less relevant deal offerings. Having clarity on what the company will not pursue is critical to ensuring that it goes after the right assets over a three- to five-year period.

— **In-house M&A skills.** Consumer goods companies that plan to acquire multiple assets over a five-year period should consider developing and growing their own in-house M&A strategy and integration capabilities. Companies get better results when they apply a repeatable playbook and create career paths for professionals who have a passion for seeking and integrating targets. After the deal is done, consumer goods companies need people who specialize in integrating commercial, supply chain, and support functions, especially human resources. These skills are critical to creating a multiyear record of success. Companies that offer career growth for professionals who volunteer for transformative M&A deals have an easier time getting top talent to fuel their inorganic growth aspirations.

Companies get better results when they apply a repeatable playbook.

M&A is an important source of value creation for consumer goods companies. There is a formula to getting it right, as successful acquirers have demonstrated. While strategy, deal execution, and integration planning and implementation are all foundational elements of that formula, sophisticated acquirers also adopt a mindset of mutual partnership with the target companies to protect what made them successful and to help them grow. That requires building and growing the organization's own M&A capabilities. Given today's consumer trends, having a strong M&A engine is more important than ever.

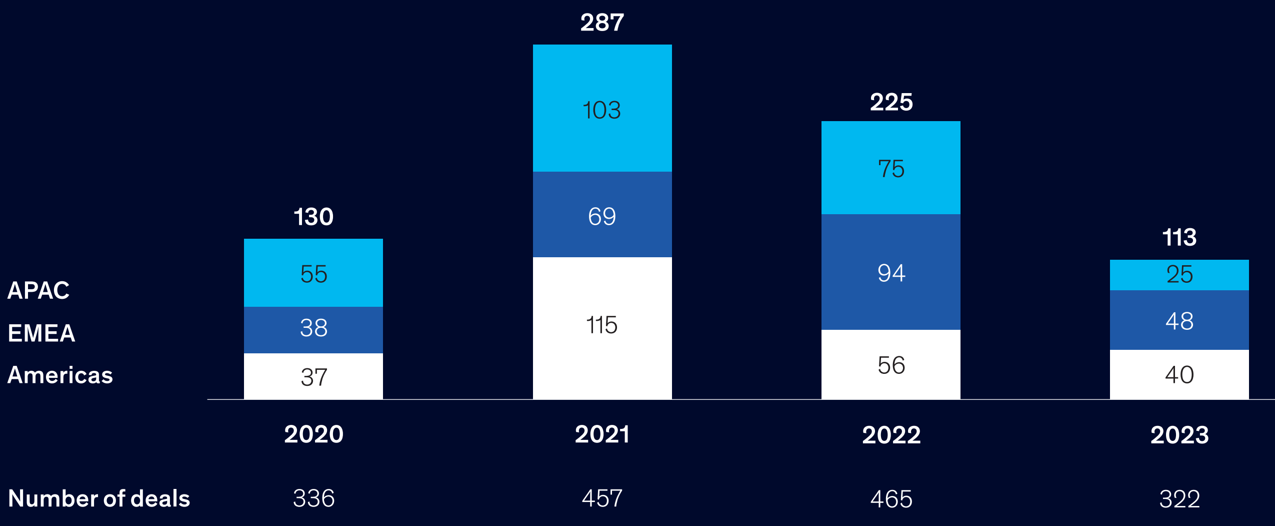
The authors wish to thank Sara Hudson, Madeleine Tjon Pian Gi, Stefano Grioni, Amaury Saint Olive, Ethan Mulvey, and Warren Teichner for their contributions to this article.

Travel, Logistics and Infrastructure

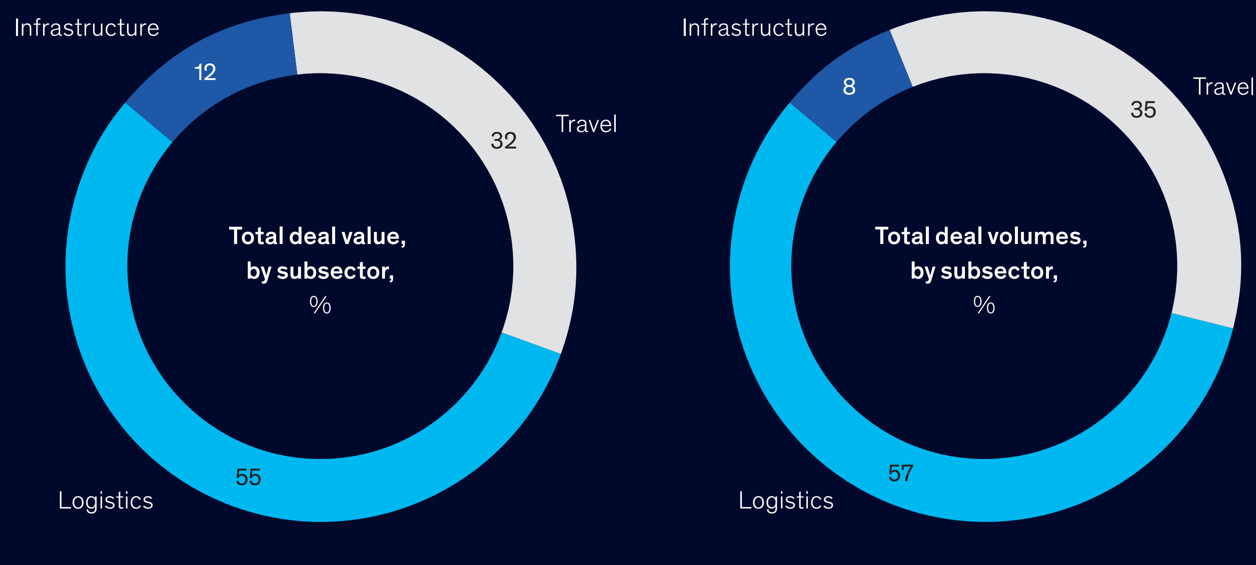
Fact sheet

Deal value

Total deal value by region, $ billion (Jan 2020–end of Dec 2023)

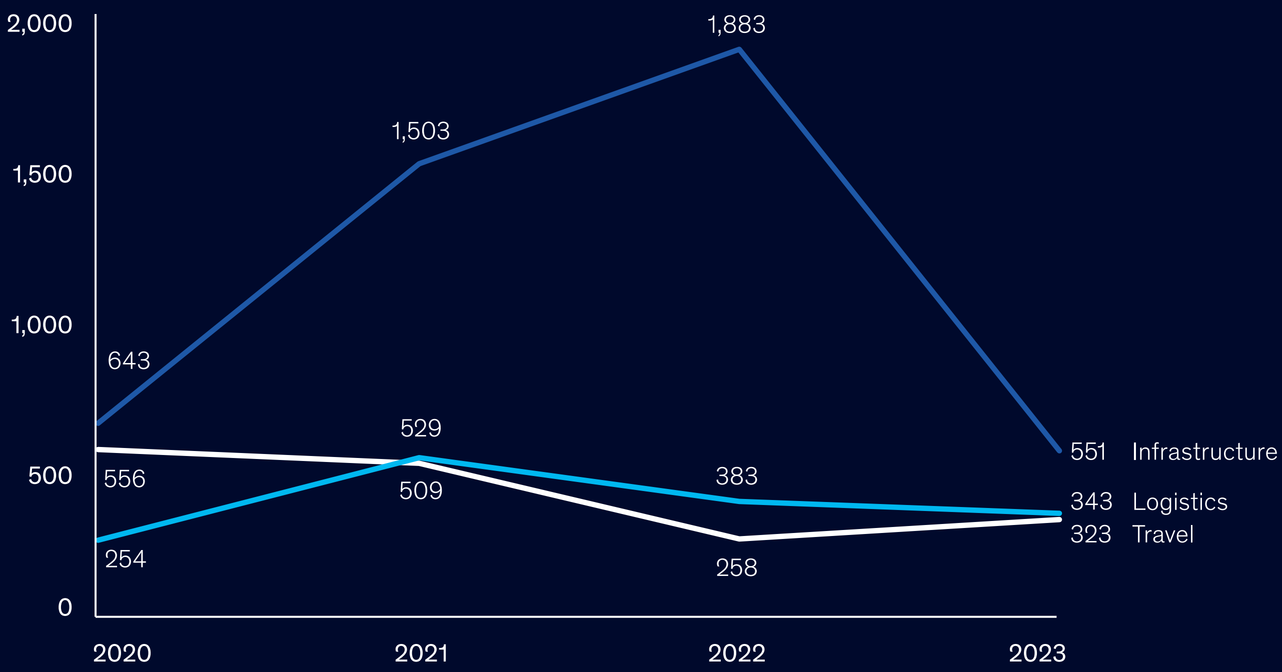


Share of activity by subsector, FY 2023



Note: Figures may not sum, because of rounding.

Average deal size by subsector, $ million



Industry sector updates and emerging trends

The shifting sands of M&A in transportation and logistics

By Tom Bartman, Ludwig Hausmann, Simran Khural, and Arsenio Martinez

After several tumultuous years for M&A, powerful forces are transforming the industry and shaping five new investment priorities for 2024 and beyond. Capitalizing on those priorities requires action, now.

After frenetic activity during the pandemic and a decline postpandemic, M&A in transportation and logistics enters a new world in 2024. But major forces are transforming the industry and creating five priorities for M&A investment.

The pandemic highlighted the strategic importance of supply chain execution. Many transportation and logistics players looked to M&A to keep things moving and profited handsomely. In 2023, deal activity slowed to a crawl, but 2024 promises new opportunities, as leading investors have amassed funds that they are ready to spend. But the M&A environment is changing, as financial, market, and technology forces are transforming the industry. Would-be dealmakers should prepare for this new world now.

COVID accelerated supply-chain-focused deal activity

During the pandemic, when supply chain execution emerged as a critical strategic capability, the transportation and logistics industry experienced unprecedented M&A activity. Many logistics players and financial investors did deals to expand capabilities and acquire high-performing assets. Deal value soared from $51 billion in 2020 to more than $150 billion in 2021 before dipping to $95 billion in 2022.

Logistics players saw unprecedented profitability. Shipping rates reached record levels across all modes of transportation—sometimes more than ten times pre-COVID levels. The rising bottom line encouraged both strategic investors (flush with cash generated by high demand and high rates) and financial investors (enjoying easy access to capital) to pursue their acquisition

Logistics providers with well-honed capabilities in deal execution and integration—and enough of those capabilities to do multiple deals—fared especially well.

ambitions. For many logistics providers, these ambitions included expanding their value propositions to serve the supply chain end to end or their geographic coverage, such as CMA CGM acquisitions in freight forwarding and Maersk acquisitions in the North America domestic market.

Logistics providers with well-honed capabilities in deal execution and integration—and enough of those capabilities to do multiple deals—fared especially well. Consider global logistics giants DSV and Kuehne+Nagel (K+N). DSV acquired Panalpina in 2019 and Agility in 2021; DSV's stock price has almost doubled since early 2020. K+N acquired Rotra Forwarding in 2020 and Apex in 2021; K+N has enjoyed TSR of 180 percent since early 2020.

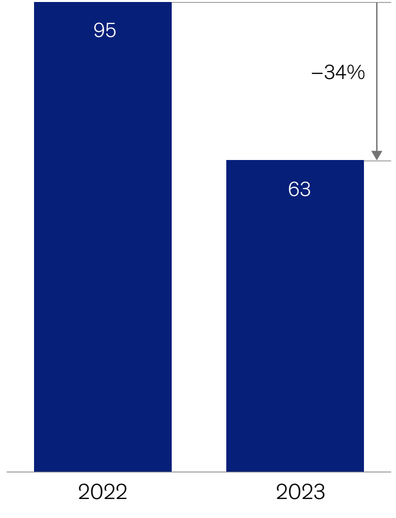
Deal activity slowed in 2023

After two frenetic years, both deal volume and value fell sharply in 2023 (Exhibit 1). Transportation services remained the most active sector, followed by shipping and general logistics or warehousing. North Asia saw the highest number of deals, followed by Europe and North America (Exhibit 2).

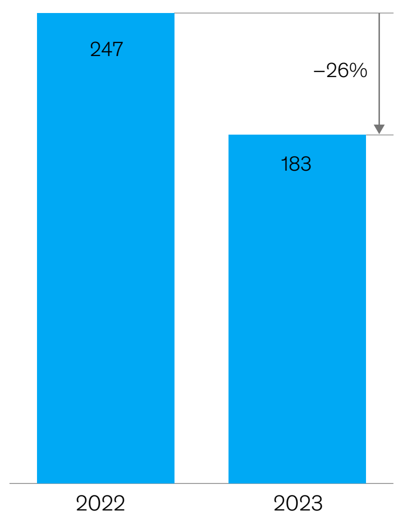
Exhibit 1

Both value and volume of TLI companies' deals declined in 2023.

Deal value,[1] $ billion



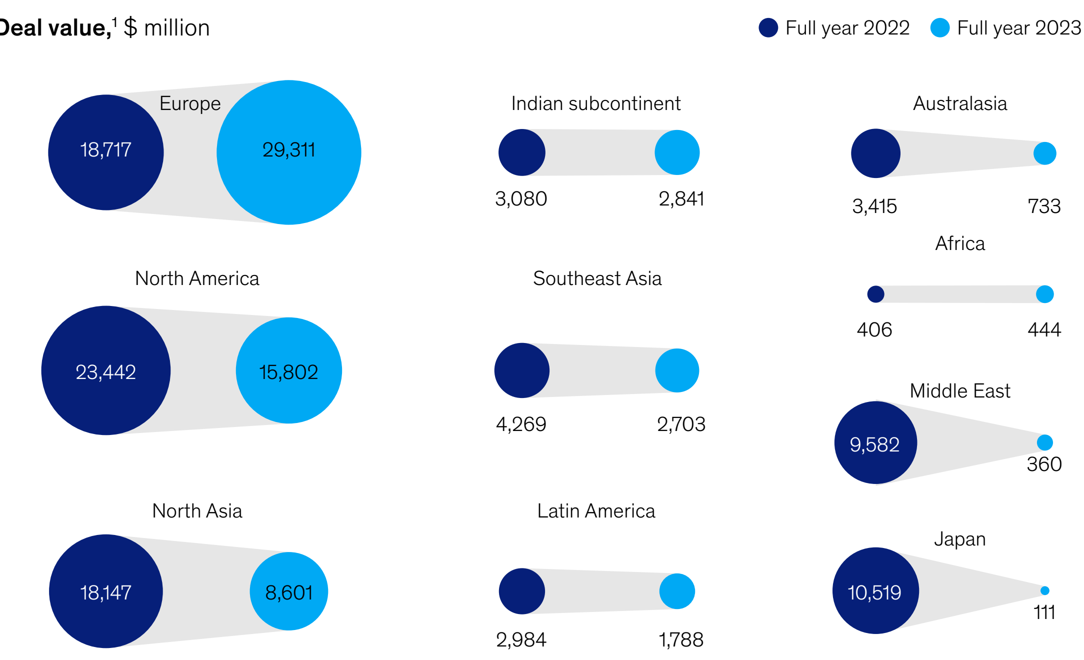
Number of deals



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

Exhibit 2

TLI deal activity varied widely across regions.



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

The average size of the top 25 deals also dropped—almost 26 percent (Exhibit 3). Only 11 deals crossed the $1 billion threshold, compared with 20 deals in 2022.

Nevertheless, shipping and logistics giant CMA CGM has been quite active in dealmaking for the past several years, including 2023, fueling its growth as a top player in global logistics. CMA CGM has expanded its worldwide presence and strengthened its ability to provide end-to-end transportation and supply chain services.

Overall, we take these shifts as signs of a course correction, fueled by several factors:

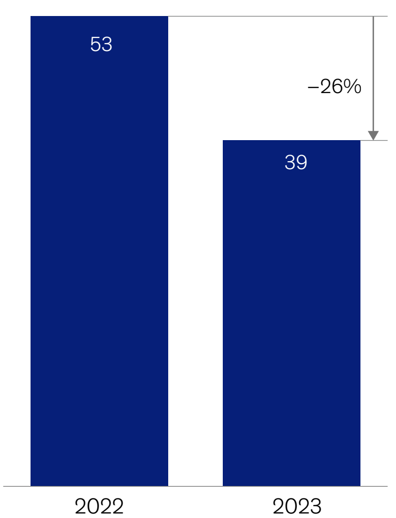
— Would-be buyers and sellers have had difficulty agreeing on prices because they see the M&A landscape very differently. Buyers believe that demand and prices will return to prepandemic levels, while sellers believe that prices will remain above prepandemic levels and that some COVID-generated profitability will sustain dealmaking going forward.

- Access to capital has tightened as central banks have raised interest rates to fight inflation, reducing the ability and appetite of buyers, especially financial buyers, to look for deals.
- Demand for logistics services has weakened, exerting downward pressure on the rates that shippers pay for those services.

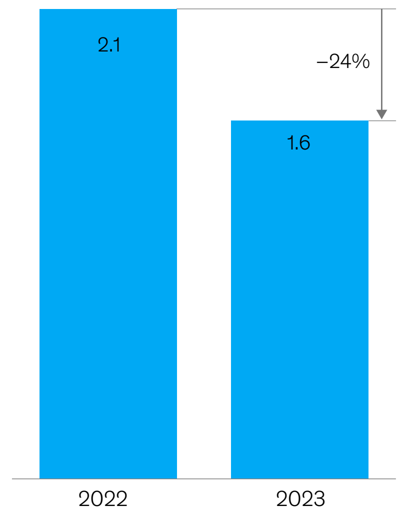
Exhibit 3

Both value and volume declined for the top 25 deals made by TLI companies.

Total deal value,[1] $ billion



Average deal size, $ billion



[1]Deals announced (and not withdrawn); top 25 deals by value.
Source: Dealogic; McKinsey analysis

Together, these factors created a perfect storm for logistics M&A in 2023. But 2024 promises to be a very different year. In fact, we are already seeing meaningful activity with CMA CGM's January announcement of plans to acquire Wincanton, a UK-based logistics company, for about $1 billion.

2024 opens a new world of opportunity

The 2023 shifts do not preclude unlocking substantial value from logistics M&A in 2024 and beyond. Leading strategic and financial investors are sitting on substantial funds that they are ready to spend once the market picture clears, multiples revert to historic levels, and perspectives on how best to create value sharpen. But today, valuations remain high, in line with economic conditions and optimistic forecasts.

The 2023 shifts do not preclude unlocking substantial value from logistics M&A in 2024 and beyond.

However, dealmaking in 2024 and beyond must take into account major forces that are transforming transportation and logistics:

— **Financial forces**. This year looks attractive for buyers. From 2020 to 2022, logistics players accumulated deep cash reserves that they had to tap in 2023. Now they face a new financial reality that is exacerbated by the rising cost of money. Many logistics companies will have difficulty securing financing.

  Many would-be sellers will also find limited demand for their assets. We do not expect demand to rebound to pandemic levels. Demand stabilizing at 2023 levels will push valuations down and force less competitive players to rethink their business plans.

— **Market forces**. The transportation and logistics sector is growing more complex and more competitive, and we expect these trends to continue. Only the financially fittest will survive

  Shipper demands for more services and greater visibility into those services are pushing logistics players to invest in broader, more diversified service portfolios, vertically integrated services, and intermodal solutions. Meeting these requirements translates into more complex supply chain designs, with greater speed, broader geographic coverage, and more cost-competitive offerings. Emerging expectations for sustainable operations will only complicate the picture.

  While feeling mounting pressure to deliver more, logistics players must often do so with less. Churn, especially among truck drivers, is a severe problem that has serious implications for operating and recruiting costs, not to mention service quality.

— **Technology forces.** Leading-edge supply chain designs will take full advantage of sophisticated digital capabilities and automation in sales and operations—from building online channels to conducting deep analyses of the supply chain network to identifying commercial opportunities. Artificial intelligence, from analytics to electric vehicles to warehouse robots, will play a key role here.

The increasing importance of technology favors the leading strategic and financial investors in 2024 and beyond because they have the financial power to secure the digital capabilities and, with them, daunting competitive advantage. Companies that cannot keep pace should consider inviting acquisition to gain access to the capabilities they cannot otherwise afford.

Five priorities for M&A investment

These forces suggest five priorities for M&A investment across segments of transportation and logistics (Exhibit 4):

Exhibit 4

There are five priority areas for M&A investment by TLI companies.

	Investment priorities	High-potential subsectors	
1	**Pursue acquisition targets created by the 2023 downturn**	FTL/LTL Truck brokerage Freight forwarding IMCs	Customs brokerage Digital contracts RE lessors Asset leasing/rental
2	**Pursue acquisition targets that can expand the portfolio of services and enrich the value proposition**	Contract logistics Drayage Trucking	Fulfillment Expedited
3	**Invest in sustainability infrastructure that will make the supply chain greener**	Sustainable fuels EVs Circular economy	
4	**Acquire and integrate providers in fragmented segments to create champions**	Contract logistics Drayage Trucking Freight forwarding	
5	**Acquire technologies that are transforming logistics operations**	Supply chain planning Logistics and transportation management Warehousing and inventory management	Risk management / compliance Visibility Control tower

1. **Pursue acquisition targets created by the 2023 downturn opportunistically.** Many midsize companies in various segments fit the bill. Forecasts that prove overly optimistic should translate into lower valuations.

2. **Pursue acquisition targets that can expand the portfolio of services and enrich the value proposition.** These will often be viable businesses located in market segments that other companies are ignoring or businesses with assets that would be difficult to replicate.

3. **Invest in sustainability infrastructure that will make the supply chain greener**, pleasing both shippers and the government. Opportunities here range widely, from cleaner fuels to electric vehicles to circularity.

4. **Acquire and integrate providers in fragmented segments to create champions**. The top ten providers in a segment like contract logistics represent only about 5 percent of the market, so investors, especially leading financial investors, stand to profit handsomely from buying several companies at attractive prices and rolling them up into a single company that enjoys broader geographic reach and a larger customer base.
5. **Acquire technologies that are transforming logistics operations**, particularly digital and automation capabilities. Appropriate targets will be companies that have or are developing these capabilities.

To profit from pursuing these priorities, investors will focus on assets that enable their new owners to build stronger companies and tap new sources of value.

Getting ready for 2024 and beyond

Would-be dealmakers should lay the groundwork now. Specifically, they should:

— **Set a vision for M&A investment.** For most strategic investors, this vision should focus on strengthening competitive advantage or capabilities. For most financial investors, this vision should focus on capturing financial value from every deal. Then the question is: Which segments and potential targets in those segments offer the greatest opportunity to realize that vision?

— **Develop a value creation plan.** This plan should address executing the deal and, especially for strategic investors, integrating the acquired company and transforming the business. The plan should provide a specific answer to the question: How will this deal create value for me?

— **Ensure that the capabilities required to implement the value creation plan are robust**. Questions to answer include: Do I have the capabilities required for execution, integration, and transformation? Do I have enough of those capabilities to do more than one deal efficiently and effectively? Are the capabilities rollout-ready when the right time comes?

After several tumultuous years for M&A investment in the transportation and logistics industry, powerful forces are transforming the industry and shaping five new investment priorities for 2024 and beyond. Capitalizing on those priorities requires immediate actions: setting the right investment vision, developing a clear plan for capturing value, and creating or enhancing robust capabilities to translate that plan into operating reality.

The authors wish to thank Roerich Bansal, Devina Singh, and Tim Zimmermann for their contributions to this article.

Dealmaking in 2024: Getting it right

The portfolio management imperative and its M&A implications

By Jens Giersberg, Hannes Herrmann, Alexander Maier, and Marc Augustin

Several trends are creating a new imperative for strong portfolio management of businesses. Companies need six capabilities to build and manage a winning portfolio, using M&A strategically.

While portfolio management has always been high on many executive agendas, companies could achieve solid returns without rigorous portfolio management when capital was readily available, and the economy was booming. But now, as capital becomes more constrained, many companies need to sharpen their portfolio management capabilities and rethink their approach to M&A accordingly.

Thinking like a portfolio manager

The pandemic brought record levels of M&A activity and freed companies to explore diverse opportunities. Today, four trends are creating a new imperative to manage the portfolio of businesses more tightly.

Trend 1. Central banks' battles against inflation raise the cost and limit the availability of capital. Especially in the US and Europe, inflation hit levels not seen for years, increasing uncertainty and volatility and leading central banks to tighten their policies. While those policies are beginning to curb inflation, the average global cost of capital across industries nevertheless jumped 2.5 percentage points—from 5.7 percent in 2021 to 8.2 percent in 2023, only slightly below its recent peak of 9.5 percent in 2022.[1]

1 Based on global data from Damodaran uploaded in January 2024.

Four trends are creating an imperative to manage portfolios more tightly.

Trend 2. Challenging macroeconomic conditions demand local responsiveness by globally integrated multinational companies. The center of economic gravity has been shifting for more than a decade. Over the last 15 years, China and India have accounted for almost two-thirds of global GDP growth and more than half of new consumption. The pandemic and rising tensions among nations have created some of the most challenging macroeconomic conditions in recent memory.

Trend 3. New technologies disrupt business models more rapidly. The pace of digital disruption has been increasing for decades. Two life-changing inventions—the telephone and the mobile phone—required 75 years and 16 years, respectively, to reach 100 million users worldwide. TikTok hit that milestone in nine months, and ChatGPT in just two months. The pace of AI disruption remains to be seen but seems likely to set a new record.

Trend 4. Investors increasingly prefer pure players and differentiated portfolios. In recent years, investors have pushed companies hard to focus on a single industry or business to enhance the creation and crystallization of value. Many corporations with portfolio businesses that are much more homogeneous than earlier conglomerates have streamlined their portfolios through splits or sales. But they still have to set clear synergy aspirations across the portfolio, and that requires portfolio management skills and experience that can handle a cross-enterprise perspective.

Acting like a portfolio manager

These trends put a high premium on having the right capabilities to build and manage a company's portfolio of businesses. Empirical evidence and our experience in advising companies suggest six core capabilities that portfolio managers need to succeed in today's challenging environment.

Capability 1: Reviewing the portfolio with brutal honesty
Effective portfolio management starts with understanding the current portfolio. Developing a holistic, unbiased perspective requires reviewing the portfolio from the perspective of an external investor or capital markets analyst. The review should challenge the company's current industry selection and exposure and analyze the strategy and performance of each portfolio company.

Peer insights can enrich this review. Benchmarking the strategy, performance, and recent moves of each portfolio company against selected peers can deepen understanding of the current state, show what *great* means, and locate white spots and opportunities to improve.

This understanding can then inform decisions on how aggressive a portfolio strategy should be.

Portfolio managers need six core capabilities to succeed in today's challenging environment.

Research has found that companies in the lowest quintile of performance improved significantly by making faster, broader portfolio adjustments. Global packaging company Amcor, for example, did just that—turning its performance around by acquiring Alcan's packaging businesses during the financial crisis.

But, often impeded by political factors or legacy thinking, brutal honesty can be challenging. Tough discussions can be especially difficult for companies that enjoyed easy growth in the recently favorable macroenvironment, which often reduced the need to make tough decisions.

Capability 2: Locating the most promising playing fields to create value

Headwinds and tailwinds matter in selecting the right playing fields. Portfolio managers should leverage the insights gleaned from the portfolio review, consider how the winds are shifting, and predict where the greatest opportunities for value creation lie.

Because growth rates and momentum vary across industries, the *portfolio momentum* of a company (the sum of its moves for each business unit) looms large in TSR. We see companies that start the analysis period strong and sustain positive industry momentum doing very well. Riding the right tailwinds, they achieve annual excess TSR of 4.4 percent.[2]

But a slow start does not preclude success. Some companies whose portfolio momentum starts slowly succeed—to a reasonable extent—by moving into higher-momentum industries. They achieve excess TSR growth of 1.7 percent. Consider Apple shifting from the negative momentum of desktop computing into mobile phones or global investment holding company SoftBank reducing its telco exposure while building its software footprint.

Other companies stay in their industry, still exposed to its headwinds. Without corrective action, these companies struggle, and their average excess TSR remains negative.

Predicting wind shifts is not easy. It requires deep market understanding to spot trends, openness to both emerging opportunities and potential disruptions, willingness to communicate often uncomfortable truths, and the courage to act on those truths expeditiously, whatever action is required. But making predictions is essential to selecting the right playing fields, and that is especially important as fewer playing fields still enjoy the growth rates of the recent past.

Portfolio managers must also manage uncertainties and potential risks. Scenarios can help. Defining scenarios that employ different critical drivers supports making fact-based decisions on the right playing fields, despite uncertainty.

Capability 3: Defining the right portfolio composition to maximize value

The effort to define the right portfolio composition builds on the assessment of the current portfolio and the selection of the playing field.

The target composition should maximize the value of the overall portfolio. Every business included should have a clear rationale, such as creating synergies, gaining access to an attractive adjacent profit pool, ensuring a supply of critical inputs, or reducing risk across the portfolio. The rationale should focus on tangible and proven value creation, not intangibles and promises.

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[2] Sandra Andersen, Chris Bradley, Sri Swaminathan, and Andy West, "Why you've got to put your portfolio on the move," *McKinsey Quarterly,* July 22, 2020.

Every business should also sit at the right distance from the company's core. Statistically speaking, acquisitions at the outer edge of the portfolio (for example, to shore up existing secondary businesses) achieve the best results. They average excess TSR of 1.6 percent.

Defining the right composition requires willingness to let a business go when it loses its rationale or the prevailing winds shift, making the business less attractive. Just securing consensus on plans to let a business go (never mind actually letting it go) can prove difficult.

While we offer no single blueprint for composing a winning portfolio, we have identified five approaches to creating value that can help companies build a strong portfolio (Exhibit 1).

Exhibit 1

We have identified five approaches to value creation.

Approach	Primary focus	Rationale
Core centricity	**Build and manage portfolio anchored in core business/operations;** target companies with similar characteristics	Create and benefit from **scale** **Use industry-leading capabilities** / working blueprint
Vertical integration	**Develop portfolio of complementary businesses along industry value chain**	**Gain access to / internalize attractive profit pools** along value chain **Secure supply** of critical inputs/materials **Use synergies** from adjacencies
Diversification	**Develop diversified portfolio** of only loosely connected businesses; company often operates as "holding"	**Use financial firepower** to win in attractive markets, independent of core **Mitigate cyclicity** of core business
Transformation	**Build portfolio outside core business;** plan to sell off former core over time	Achieve **strategic refocus** / turnaround to tackle more attractive long-term profit pools
VC investment	**Use (equity) investments to develop portfolio of (often minority) investments** in or beyond core	**Take bets and gain insights into new business areas** **Support strategic interests** (eg, customers, capabilities)

Core centricity. Core-centric companies build and manage a portfolio anchored in their core business or operations. They gravitate toward businesses with similar value propositions, key success factors, customers, and suppliers. This similarity supports creating and then capitalizing on the scale of the portfolio and its synergies by tapping dimensions that have financial impact, such as procurement, and less tangible dimensions, such as industry and competitive insights. Think Unilever's evolving portfolio of consumer products.

Vertical integration. Companies that have a vertically integrated portfolio move up and down the industry value chain, often to acquire attractive profit pools they already know as a customer or supplier. Upward moves typically seek to secure the supply of critical inputs, while downward moves seek to gain or protect direct access to end-customers.

A vertically integrated portfolio positions a company to capture synergies along the value chain. Some large corporations have moved so far vertically that they developed a new business that proved more attractive than their core business and evolved into a standalone business. Think Amazon Web Services, Amazon's subsidiary that provides on-demand cloud computing services.

Diversification. A diversified portfolio consists of only loosely connected businesses. The typical goal is to leverage the company's financial firepower in order to win attractive markets outside its core or to mitigate the cyclicality of its core business.

Many conglomerates attempt to manage each different business directly. Their success varies. Because investors increasingly expect synergies within a portfolio and prefer pure players focused on a single industry, more companies work to position their central organizations as "holdings" focused on selected, overarching synergy drivers and let each individual business operate independently. Capital allocation can become a major bone of contention, but success is possible. While failures are more widely known, Siemens, Virgin, and Google offer success stories.

Transformation. Most companies bring new businesses into the portfolio on top of their core operations. Even if the additions become more attractive than the core, the core usually remains.

But a few companies have boldly built a portfolio distinct from their core, planning to divest the core over time to strategically refocus or turn around the business. Perceiving the core as unattractive or even headed for extinction, they pursue profit pools with greater long-term promise, as dsm-firmenich (formerly Dutch State Mines) refocused from mining to nutrition and well-being.

Venture capital investment. Unlike typical corporate venture capital activities, this approach plays a central role in a company's strategy. Companies make (equity) investments to develop a portfolio of (often minority) investments in and beyond the core. These companies are betting on and gaining insights into potential targets for acquisition in the medium to long term, or they are finding ways to support strategic interests, such as new customers or new capabilities.

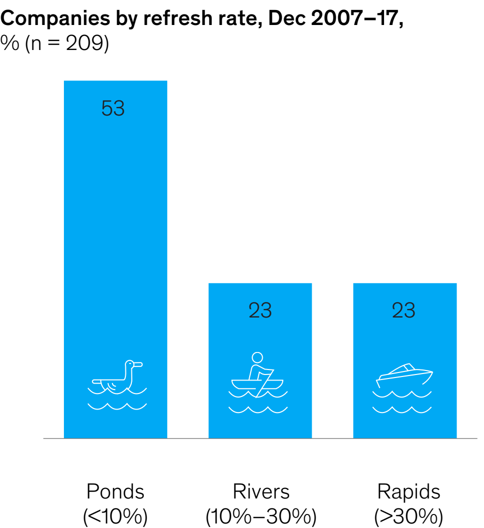
This remains an emerging portfolio management approach, used primarily by tech players like Palantir, UiPath, and Coinbase. Its broader, long-term potential remains to be seen.

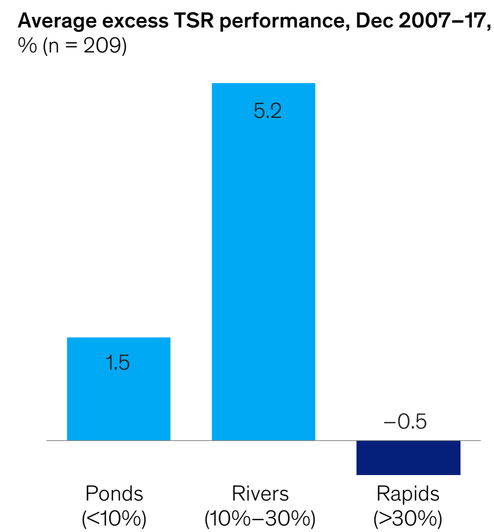
Capability 4: Rotating the portfolio toward its target composition
Evolving a portfolio from its current state to its target state requires adding and subtracting businesses, either organically or inorganically. Both approaches require making changes to overcome obstacles, such as the inertia that often perpetuates the status quo.

Research, based on pre-pandemic data (to exclude the impact of pandemic-related factors), found an optimal rate for rotating industries and companies. Portfolio managers should aim for a rotation that is balanced—neither too low nor too high. In a ten-year review, companies with static portfolios (having a refresh rate—also known as changing the revenue mix of the company—below 10 percentage points) did not achieve meaningful excess TSR. Companies with significantly refreshed portfolios (more than 30 percentage points) achieved slightly negative excess TSR. Companies that hit the sweet spot between 10 and 30 percentage points outperformed peers, with excess TSR of 5.2 percent (Exhibit 2).

Exhibit 2

Refreshing a company's portfolio at a rate of 10 to 30 percent will create the best outcomes.





Note: Figures may not sum to 100%, because of rounding.

M&A transactions provide a powerful tool for rotating the portfolio rapidly. Research has shown that companies focused primarily on organic strategies and related portfolio moves, on average, underperform their peers.

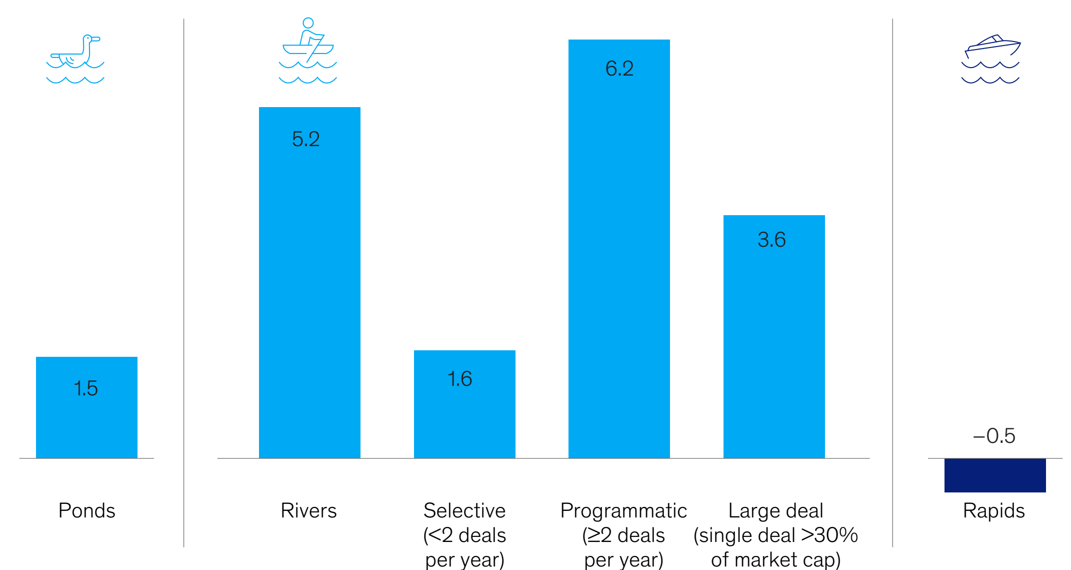
But just doing deals to refresh the portfolio is inadequate. Different approaches to dealmaking produce different results. In our research, programmatic acquirers outperformed their peers who also hit the refresh sweet spot (Exhibit 3). Programmatic acquirers do at least two small and

midsized deals a year and secure meaningful total market capitalization over a ten-year period. The research companies that coupled a portfolio refresh rate of 10-30 percentage points with a programmatic approach to M&A achieved, on average, excess TSR of 6.2 percent (Exhibit 3).

Exhibit 3

Taking a programmatic approach to M&A will create the best outcomes.

Average excess TSR performance, by portfolio refresh rate, % (2007–17)



During the analysis period, Boeing led the pack (excess TSR of 7.4 percent), thanks to several technology-related acquisitions (such as n2d3 Sensing, AerData, and Miro). Luxury goods company LVMH followed closely (excess TSR of 6.9 percent), thanks to its acquisitions of Loro Piana, Rimowa, and Bulgari, among others.

The research further found that companies taking a programmatic approach to M&A when moving into industries blessed with favorable tailwinds outperformed peers, with excess TSR of 3.7 percent. Their steady cadence of transactions offers continuous opportunities to strengthen their transaction and integration capabilities and update their market insights.

Rotating the portfolio to maximize its value requires looking beyond acquisitions to consider other ownership models, like partnerships that reduce financial commitments, while maintaining some control and exposure to a playing field, or divestments for those able to meet the challenges of letting go.

Telecom and energy companies, for example, sell shares in their infrastructure subsidiaries to financial investors in order to free up capital for higher-growth opportunities while maintaining control. German utility EnBW recently sold a 24.95 percent share in its high-voltage transmission grid, TransnetBW, to a consortium led by a savings bank and an additional 24.95 percent share to the German government via the KfW bank.

Divestments demand deep understanding of each business's operations to determine the right time to trigger the divestment process. This requires looking beyond changes in general market trends to consider such triggers as a natural inflection point in the lifecycle of an asset or a looming need to make significant investments.

Capability 5: Steering the portfolio based on rigorous return logic and tailored KPIs
Effective **resource allocation** assigns resources to the highest-value opportunities across the portfolio, ensuring that the portfolio achieves maximum return on invested capital (ROIC), while supporting current business objectives and future growth. But many companies rely on profit instead—often because that is common practice in their industry and much simpler to calculate. They need to see that ROIC represents value added more accurately and is more relevant to valuation. Admittedly, calculating ROIC, especially below the Group level, can be challenging because it requires knowledge of each segment's asset base, which companies do not always track. But the effort adds significant value.

Consider Microsoft. Despite entering cloud computing late, Microsoft built a cloud business worth $35 billion in 2018 that boasted market share of 17 percent (versus less than 1 percent in 2012). How did Microsoft do it? By committing significant resources—unlike IBM, which enjoyed market share of 5 percent in 2012 but grew that share to only 7 percent in 2018. Failure to commit sufficient resources likely played a large role in limiting IBM's growth.

Effective **financial steering** helps every portfolio company reach its full potential by setting appropriate, ambitious KPIs and using them to measure and monitor performance. Success requires understanding the true value drivers of each company and the company's potential (defining what good means as a basis for setting targets).

Automotive manufacturer Stellantis is a poster child for rigorous, KPI-based financial management. Its KPIs focus on net cash flow—the guiding metric for a holistic efficiency program across cost categories and a key factor in management and executive compensation decisions.

Financial steering may use KPIs like ROIC across the portfolio but should complement those metrics with KPIs tailored to each business. High-growth businesses often require metrics that reflect their value drivers and maturity, such as user/subscriber growth.

Capability 6: Deploying the operational steering model that best fits the portfolio
Effective **operational steering** does not require portfolio managers to participate directly in day-to-day operations. Instead, they set a framework that both captures synergies and scale across portfolio companies and maintains speed and accountability in each business.

Too much attention to either half of the equation can undermine value creation. Excessive focus on synergies can reduce the speed and agility of decision making, leaving the company more vulnerable to fast-moving competitors. Excessive freedom in managing each business can put scale benefits at risk.

Holding companies can play a key role in effective operational management. Some companies, including Samsung and Unilever, treat holding companies as active "operators" deeply involved in technology, M&A, and the strategy of each portfolio business. This model works best for setting up similar or almost identical businesses, where synergies drive significant value.

Toward the other end of the spectrum, companies like TATA and A.P.M Møller treat holding companies as a "strategic holding." They play a coordinating role while each business retains significant autonomy. This model best fits portfolios that have moderate synergy potential as their more diverse businesses benefit from autonomy.

Getting started

Now, more than ever in the last decade, companies must get serious about portfolio management. Leaders need to understand the trends that are stoking a more volatile environment and the new imperative these trends create. Leaders can then ensure that their company has the capabilities required to manage the portfolio holistically.

Creating value from green M&A

By Nikolaus Raberger, Felix Rompen, Taimur Tanoli, and Mieke Van Oostende

Companies can reap substantial benefits from programmatic, sustainability-linked M&A if they follow a compelling deal rationale and a tailored execution approach.

The worldwide transition to net-zero greenhouse gas emissions will require shifting more than $100 trillion in corporate assets to low-emissions models. This reallocation is already spurring significant M&A activity. Today, across the globe and industries, companies increasingly see sustainability-linked (green) M&A as a way to catalyze their strategies, stimulate growth, and improve operations while raising their environmental, social, and governance (ESG) profiles. Consequently, they are pursuing deals linked to elements of the broad global energy transition, such as decarbonization from new technologies for power generation, mobility, heating, energy storage, sustainable feedstocks, and circular business models (for example, recycling, reducing, reusing).

McKinsey data shows that acquirers that incorporate green deals as part of a programmatic M&A approach on average outperform their peers in excess total shareholder return (TSR). However, similar to broader M&A trends, the performance of individual green deals varies widely. This emphasizes the need for a tailored M&A strategy and execution. For instance, before embarking on a due diligence journey, companies need to articulate a clear deal rationale based on a consistent corporate strategy. Potential rationales include tailored versions of participating in end markets with sustainability tailwinds, using greener product production methods, or incorporating green feedstock. These deals may also need an enhanced integration approach including, for example, focusing on maximizing top-line synergies, keeping the target company operations separate for longer, making an extra effort to retain critical talent, and bridging potential cultural differences.

Acquirers that incorporate green deals in a programmatic approach on average outperform their peers in excess total shareholder return.

66%

Rate of increase in volume of green deals valued over $100 million since 2013

Sustainability is now a strategic objective for many, with M&A as a key accelerator

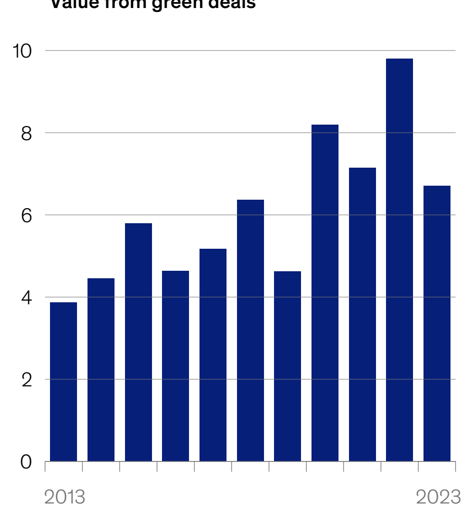
Leading companies no longer see sustainability only as an obligation to manage risk and improve their reputations. They actively seek to outperform their competitors by embedding sustainability in their corporate strategies. Decision makers increasingly recognize that value creation and sustainability go hand-in-hand. Sustainability accelerates growth, leads to higher ROIC, improves operational efficiency, increases talent retention and employee engagement, and can even lower the cost of capital. We recently published our perspectives on the link between profitable growth and advancing sustainability goals and ESG more broadly. Our analysis showed that companies that achieve better growth and profitability than their peers *while improving sustainability and ESG* delivered 2 percentage points of annual TSR above companies that outperformed only on financial metrics.

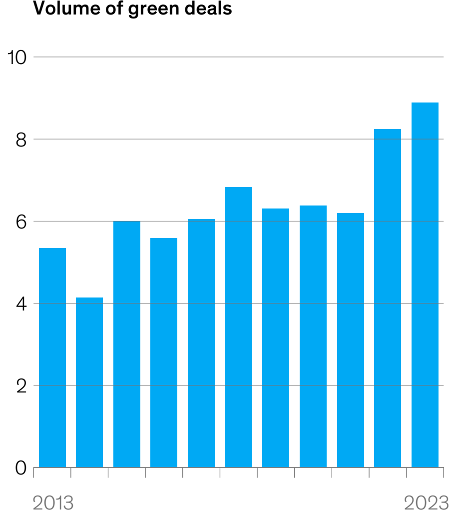
M&A can complement these strategies by accelerating the sustainability transformation—something an increasing number of companies realize. Our proprietary analysis shows that the share of green M&A deals valued at over $100 million has increased by 66 percent, from 5.3 percent to 8.9 percent (in terms of deal volume) since 2013 (Exhibit 1). A similar trend holds for the value of deals, which increased from 3.9 percent to 6.7 percent. (Due to some non-sustainability-linked mega deals, 2023 deal value was down from 2022.)

Exhibit 1

Both the value and volume of green deals have increased since 2013.

Global green deals, % deal value as a share of total deals[1]





[1]Only deals valued more than $100 million considered.
Source: Dealogic; McKinsey analysis

The past 10 years show a rising share of green deals in many sectors, albeit from different starting positions. The trend toward green M&A is observed most frequently in sectors related to energy and materials, such as electric power and chemicals, but other sectors—such as automotive, construction, consumer electronics, food, and financial institutions—are increasingly participating as well. For example, in the utility and energy sector, the share (in terms of deal volume) rose from 27 percent to 35 percent. In automotive, it rose from 8 percent to 14 percent.

This increase is also happening across regions, but with different industries predominating in different regions. In EMEA, for example, the increase was strongest in automotive, utilities, and energy (excluding oil and gas), and construction. The average share of green deals was 5 to 6 percentage points higher than in 2013 to 2015.

This analysis is based on a data set by Dealogic of more than 40,000 deals. We extracted green deals using a proprietary method that applied a text mining algorithm with 100-plus terms to the public descriptions. Examples are terms such as "circular economy," "bio-based," "hydropower," "battery storage," "insulation," "waste-to-fuels," "demand-side power management," and variants thereof. The algorithm also incorporated a logic to exclude certain deals. For example, excluded would be a deal that had some green elements, such as renewables development, but also involved a target active in coal-fired power. We used this approach rather than traditional ESG ratings and metrics to capture a broader spectrum of sustainability-linked value-creating plays.

Green M&A can help companies outperform the market, if done right

McKinsey research has shown that the most valuable M&A strategy is programmatic M&A. It outperforms all other strategies, with the highest excess TSR and lowest volatility. In a programmatic approach, companies carefully choreograph a series of deals based on a specific business case or M&A theme, rather than relying on single large transactions, selective deals, or pure organic growth.

Our latest research shows that, since 2013, programmatic acquirers that included at least one green deal above $100 million in value performed even better, on average (Exhibit 2).

Across all categories, the TSR outperformance is driven by a combination of higher revenue growth and resulting multiple expansion; margin growth is similar.

Cultures in green deals may differ more than in typical industry consolidation deals, requiring more active integration efforts.

Exhibit 2

Taking a programmatic approach to green deals yields better outcomes than taking other M&A approaches, on average.

Average excess TSR, all industries, 2013–23, %

Sustainability focus[1]	**M&A strategy** (%)				
	Organic	**Selective**	**Large deal**	**Programmatic**	**Total**
Focus on sustainability	–	1.8	0.1	3.1	**1.2**
No focus on sustainability	–	–0.6	–1.4	1.0	**–0.9**
Total	**–2.2**	**–0.1**	**–1.1**	**1.5**	**–0.5**

[1]Defined as having executed green deals with a value of more than $100 million in the relevant time frame.
Source: Dealogic; S&P Global Market Intelligence; McKinsey analysis

Importantly, the variation in performance remains high, and conducting green deals is not a winning recipe by itself. In fact, some programmatic green deals destroy value. Even though they show lower TSR volatility than other deals, the standard deviation for programmatic acquirers with a focus on sustainability is still around 8 percent. For all M&A strategies, the standard deviation is significantly higher than the median returns. Therefore, programmatic green deals need to go hand in hand with a variety of factors, such as acquisition price paid, market environment and cycle in the target industry, operational excellence capabilities, and many more. At the very least, companies pursuing this strategy need to have a compelling deal rationale aligned with a winning corporate strategy, candid due diligence, and a top-notch integration approach tailored to the rationale.

A clear deal rationale is a critical component of green deals

In green M&A, creating value often relies on using a deal to truly transform the core business, or at least deliver significant revenue synergies. In creating their deal rationale, acquirers should be explicit in what they believe the deal will bring—and this could be quite different from other types of M&A. They will also need to be rigorous in examining what downside risks they need to address. Since the target may be in a completely different business, the acquirer may need to acquire new expertise for the due diligence process. For example, a conventional power company seeking to acquire a renewable project developer will need specific capabilities to assess the value of the pipeline. This could also include expertise in land selection, permitting, procurement, and other areas.

Across sectors, we have seen five broad categories of deal rationales that acquirers can define according to their specific needs, given their various contexts, such as their company, industry, value chain, or geography.

1. **Increase exposure to sustainable end markets.** This is an often-cited strategy that directly affects a company's growth prospects and valuation. Prior McKinsey research on specific sectors, such as chemicals, showed that companies with higher exposure to sustainability tailwinds, such as decarbonization and circularity, showed higher growth and shareholder returns. Examples of such deals could be a basic materials company shifting towards mining lithium to power electric vehicles, or a construction company acquiring a competitor focused on increasing energy efficiency in buildings.

2. **Pivot toward lower carbon-intensive production technologies** by divesting non-core, high-emission assets, or acquiring a player with advanced operational capabilities and processes. In a world of high energy and feedstock cost differences across regions, this pivot is increasingly critical for energy-intensive industries, such as steel, other metals, paper, and chemicals.

3. **Secure advantageous green feedstock.** Examples might include a chemical company acquiring bio-based feedstock, or an industrial company acquiring access to green hydrogen sources instead of grey sources.

4. **Inorganically build a reliable and green energy supply.** We have seen selected manufacturing companies go beyond purchase and offtake agreements with energy suppliers and instead directly acquire electricity generation assets for their major sites.

5. **Enhance circularity of the product portfolio.** This means acquiring recycling or carbon-capture capabilities inorganically, limiting downstream emissions. Recyclable plastics provide an opportunity, among many others.

Since the target may be in a completely different business, the acquirer may need to gain new expertise for the due diligence process.

Integration in green M&A requires a differentiated approach

The best strategy is meaningless without rigorous execution. McKinsey has previously outlined general best practices of merger integration success, and these generally also apply in green deals. However, these deals require some additional considerations.

For instance, in green M&A—especially in the acquirer's first large green deal—we frequently see an approach that *does not* seek to fully integrate the target into the acquirer right away, but

keeps it at arm's length—even into the mid-term time horizon. This approach can include how the target is represented to the external world, and also its internal ways of working. Acquirers take time to align the operations and cultures of the businesses.

One reason acquirers do this is to retain critical talent in the target company, which may be active in a field where the acquirer does not yet possess distinctive expertise. Indeed, the acquirer's future success may rely more on the target's personnel than in other growth acquisitions. A combustion-engine technology player that was acquiring a developer of vehicle battery technology actively addressed talent risk by building targeted growth plans for key people in the acquired company from day one. This highlighted the importance of the acquired business and its people to the new overall corporate strategy.

Beyond the operational integration, value creation in green deals often depends on driving synergetic top-line growth in a new business line or ensuring that a more sustainable product outgrows a less sustainable alternative. While in many acquisitions, cost synergies are a critical part of the business case, in green deals, we have typically seen that transformational top-line synergies have higher relative importance.

Finally, cultures in green deals may differ more than in typical industry consolidation deals, requiring more active integration efforts. When a fossil-feedstock player acquired a plastics recycling company, their mission and vision statements were far from aligned. To begin the integration, it was critical to resolve these fundamental issues within the top team. Beyond that, cultural differences more often arise from differences in the day-to-day management practices and ways of working. For example, the plastics recycling company made decisions more swiftly because it was used to a smaller decision circle than the larger player, which had a heavy asset base. In this case, a successful integration required raising awareness of the combined company's culture and converging the previous cultures into it.

Of course, companies need to tailor their integration approach to the deal rationale and strategic context. While the integration governance of these deals does not fundamentally differ from others, we often see companies spending more time on mutual discovery of business models, placing additional emphasis on revenue creation, and putting a sharp focus on talent selection and retention, as well as culture.

Sustainability-linked green M&A can be an important enabler for companies seeking to be at the forefront of long-term value creation in their industries. To maximize the chances of success, leaders develop and implement programmatic M&A strategies leading to precise deal rationales. Later in the process, companies need tailored integration planning and execution that caters to the specific themes of green deals.

The authors wish to thank Lena Schneidewind and Valentin Kuhn for their contributions to this article.

Leading through uncertainty: Navigating delays in M&A deals

By Richard Fitzgerald, Ben Stretch, Mieke Van Oostende, and David Vernon

Over the past two years, delays have plagued 30 percent of major acquisitions. To avoid destroying value, momentum, and morale, dealmakers need a plan that anticipates likely delays and prepares for contingencies.

The traditional execution pathway went from public announcement of a signed deal to pre-closing legal, operational, and financial diligence to integration beginning on day one. Experienced dealmakers followed a clear playbook and knew the time and resources required.

Sources and impact of M&A delays

Times have changed. Over the past two years, some 30 percent of the 50 largest global acquisitions (by deal size) experienced delays attributable to factors beyond their control—up from 15 percent in 2020. On average, deals stalled for six months, but the longest delay exceeded 15 months. Several factors were to blame—notably, heightened geopolitical tensions, increasingly complex integration (due to more cross-border transactions), and obstacles to securing shareholder approval.

Perhaps most important, in the decade that ended in 2022, greater scrutiny by regulators extended the time needed to advance from announcement to approval by 35 percent for the 100 largest global deals done each year. From 2017 to 2022, lengthy regulatory reviews in the US and Europe increased by 50 percent.

Heightened regulatory reviews have grown more prevalent and complex, adding considerable time and uncertainty and increasing the risk of extended delays.

Heightened regulatory reviews have grown more prevalent and complex, adding considerable time and uncertainty and increasing the risk of extended delays. As one seasoned M&A executive told us, “The complexity of regulatory approvals has grown dramatically. When I did my first deals, all the regulators were looking to Europe. The European regulators were the harshest and most strict; all other regulators would follow. Today, that is no longer the case. Most countries have their own bodies who act independently. Getting European approval does not mean you get French or German approval.”

Deal delays can destroy significant value and undermine momentum and morale in several ways, including:

— Delays prolong distraction from business-as-usual and core activities, especially because critical talent stay out of their day jobs longer than planned.

— Delays open a window for competitors to prepare responses, poach customers and employees, and take advantage of the uncertainty to leap ahead of encumbered peers.

— Retention of internal and external M&A integration team members is difficult and costly.

— The significant costs associated with delays, such as holding additional equity capital and incurring one-time costs, raise the already high costs of capturing synergies.

— Delays adversely affect employees who often experience tremendous anxiety, fatigue, and wavering confidence and commitment, especially when the deal is large and the uncertainty is prolonged.

In this environment, dealmakers need a clear and coherent plan. From the get-go, deal planning should include attention to identifying and navigating delays beyond company control that may well occur, especially during the often-overlooked period from announcement to close.

4 Rs of managing deal delays

Time and again, our experience in helping clients navigate delays and the perspectives shared by M&A executives who have weathered delays on major deals have highlighted the power of **“4R” planning—reflect, revise, reframe, and reinvigorate**—to sustain momentum.

Reflect: Assess all delay scenarios, investing as much effort in developing contingency plans as in building the integration timeline
Once a delay materializes, the acquiring company faces serious time constraints and must be confident of the deal logic and the teams’ readiness to flex immediately. Readiness demands more than realizing that a delay might occur; it requires determining the most likely delays, understanding their parameters, and defining practical contingency plans—the actions most likely to mitigate their impact. The most flexible teams are teams that have been focusing narrowly on the tasks most critical to a successful day one—not the nitty-gritty details of integrating the two companies after the deal closes.

As the senior M&A executive recalled in our interview, “We prepared different scenarios after setting a very clear strategy, presenting an aligned perspective to the market.”

Readiness demands more than realizing that a delay might occur; it requires determining the most likely delays, understanding their parameters, and defining practical contingency plans.

Honest assessment of what leaders can and cannot influence in the event of every likely delay is critical. Some delays are, in fact, beyond their control, and acknowledging that reality builds trust in leadership and the integration team.

Effective integration planning across all delay scenarios—including the best-case scenario, where no delays materialize—should align resource plans with key integration milestones. Planning to add resources at each milestone, such as regulatory or board approval, instead of launching all teams at announcement can avoid wasting cost, effort, and commitment if delays do happen. This incremental approach can also keep those critical components of deal success aligned with increasing certainty that the deal will proceed.

Our executive interviewee raised a question worth considering: "Does day one need to be all-encompassing, or do you focus on certain elements like go-to-market and the defensive strategy? Companies constantly want to make day one bigger than it needs to be."

Every potential delay that leadership might need to handle requires an action plan focused on people management. Most integration efforts launch with agile teams that include internal resources and external contractors tasked with ensuring operational readiness. The action plan should detail how to streamline that core team structure quickly if the delay occurs, especially how to reduce reliance on contractors to control costs. But the plan should maintain adequate resources to limit disruptions to momentum and decision making.

This early attention to potential delays creates the opportunity to demonstrate the integrity and transparency that are essential to effective integration leadership. In the process, it lays a strong foundation for fostering an open culture that aligns expectations across all stakeholders.

Scenario planning also offers ancillary benefits. As our executive interviewee noted, "Even when you prepare scenarios that you don't need, they can become very useful when it comes to portfolio management later on." Plus, scenario planning deepens understanding of the target's business and what both companies are and are not willing to give.

Revise: Pivot to value-maximizing actions to limit downside and unlock potential upside
If a delay occurs, the team should assess its impact on the timeline and look critically at the deal's expected value. The acquiring company must make a go/no-go decision based on assessment of whether the delayed deal still stands to realize its synergy potential and to create the promised value. Sometimes a regulatory delay provides a compelling reason to exit the deal—even given any reverse break-up fee. If deal leaders remain determined to close, leadership should feel certain of the deal value and be able to articulate the deal logic to the board, shareholders, the public, the target company, and other stakeholders.

If the deal remains a go, the operational focus should shift to protecting value. This requires identifying a nucleus of deal team members who can keep things moving forward during the

Our executive interviewee advised, “Equip your leaders to do very heavy stakeholder management—more than what they would do in their normal jobs. That includes talking with clients, employees, government bodies, and whomever else constantly.”

delay. Because the other team members will probably be required when the delay ends, finding them temporary positions elsewhere in the organization is usually wise.

The acquiring company should also explore whether the delay-altered timeline creates opportunities to advance synergy-capture initiatives, such as expediting consolidation post-close. The team should revisit the plans and designs for these initiatives accordingly and then watch vigilantly for further delays that would require mitigation strategies. This willingness to shift course as conditions change can go far toward avoiding deal fatigue and distraction.

Reframe: Craft the narrative and communicate it clearly
Delays can send shockwaves through the acquiring and target companies, especially the deal and integration teams. At the same time, competitors are poised to capitalize on the disruption by taking quick, tactical actions. Without immediate, effective communication to internal and external stakeholders, confusion and uncertainty can paralyze employees, encourage competitors to act, send customers running for the hills, and shake market confidence in the deal.

The acquiring company must be ready to communicate a simple, compelling narrative internally and externally. This requires clear, concise, consistent messages delivered from the top—by the CEOs, integration directors, and other business leaders. Both the messages and their delivery should reflect leadership's confidence in the chosen course of action and in the benefits that the deal will deliver to both the acquirer and the target, despite delays.

Our executive interviewee advised, “Equip your leaders to do very heavy stakeholder management—more than what they would do in their normal jobs. That includes talking with clients, employees, government bodies, and whomever else constantly.”

Reinvigorate: Engage people to sustain momentum
Effective engagement of people at all levels of the merging companies is critical to the success of any deal and assumes even greater importance when delays happen. Delays tend to magnify typical employee concerns—such as job security and relocation requirements—and often reduce motivation, bring feelings of exhaustion and burnout to the surface, and increase attrition risk.

Effective people management that keeps people energized and engaged during delays is key to sustaining momentum. Both words and actions matter.

Our executive interviewee recommended, “Put in place non-financial programs beyond just leadership attention. I am a strong believer in development programs for individuals and categories of the workforce. If people feel the company is still investing in their development, they will hang onto the company. It creates a belief there is a future here. Otherwise, why would they invest? Don't do the development for the sake of it; instead, use it as a means to prepare them for the future, to give them a future orientation.

“If you put retention programs in place, make them performance-based. That will protect your business and keep employees focused on the job. Time-based programs dis-incentivize people.”

Engaging the acquiring company’s integration team is especially important. These people have often made deal-related career choices, left other teams, and invested heavily in the deal effort for a significant period of time, so they suffer from deal fatigue. Giving the nuclear team tasks like addressing deal complexities (think technology integration), locating additional potential synergies, and responding to regulatory inquiries can sustain momentum and morale.

Delays can erode trust among the acquirer’s employees and management. Leaders need to demonstrate empathy—for example, by meeting one-on-one with affected staff and celebrating efforts to date. Sending regular updates on delays (timing and impact on business-as-usual roles) and providing channels for employees to voice concerns can go far toward keeping their trust. Leaders need to remember that many employees and managers dedicated to business as usual also suffer from deal fatigue, as the deal diverted significant resources and energy from their efforts and probably changed project timelines to fit the integration timeline.

Delays can create great uncertainty among the target’s employees and leaders. Delays typically trigger concerns about deal completion and the quality of any completed deal and exacerbate already considerable job security concerns. Clear communication of any delay-related changes in roles and responsibilities and of delay expectations—such as length and the path forward—and reiteration of the deal’s value and logic can greatly allay those fears and reduce the risk of competitors poaching top talent.

The boards of both companies require deliberate efforts to keep them engaged. The board of the acquiring company must understand potential delays and realistic trade-offs and guardrails so they can make critical decisions quickly, when needed. The acquirer should also find ways—within legal constraints—to keep the target’s leadership team involved.

Delays often lead customers of both companies to lose faith in the organizations and even switch to competitors, especially if they see demoralized staff delivering lower-quality service than usual. Customers often fear that regulatory action reflects negative views of the merging companies. Both companies must make every effort to maintain business-as-usual service quality and communicate the facts about regulatory action clearly and consistently.

Conclusion

In today's M&A environment, dealmakers and integration teams should expect delays that are beyond their control. But delays do not have to be deal-breakers. Early planning and effective execution of those plans can sustain momentum and morale and keep deals on course to significant value creation.

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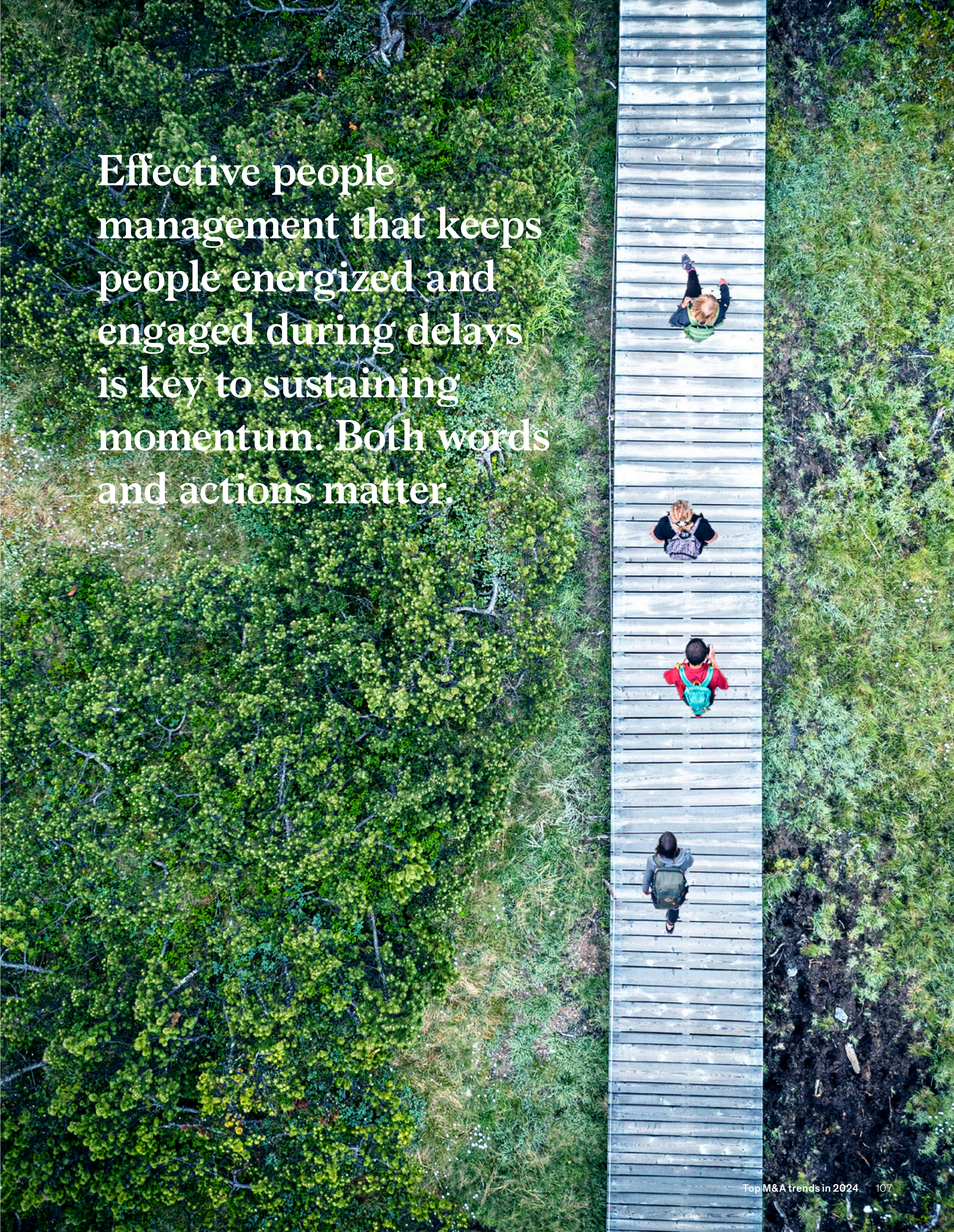


Effective people management that keeps people energized and engaged during delays is key to sustaining momentum. Both words and actions matter.

The culture compass: Using early insights to guide integration planning

By Jocelyn Chao, Rebecca Kaetzler, Kameron Kordestani, and Emily O'Loughlin

The huge impact of culture on M&A performance means that culture should be factored into integration planning from the start. We recommend focusing on five cultural attributes.

Culture has outsize impact on M&A performance. In our January 2023 survey of almost 1,100 M&A leaders, 44 percent cited "lack of cultural fit" and "friction between the acquiring and target companies" as top reasons that integrations fail. Even when the impact is less severe, cultural issues can delay value capture and prolong the integration effort. Many M&A executives have admitted to us that they gave culture too little attention, too late.

Early attention to culture—starting even before a deal is announced—can prevent these problems and enrich integration planning. Integration success requires conducting a thorough diagnostic that compares company management practices and ways of working and then developing a plan to combine company cultures. But efforts to manage culture during integration planning can launch before that diagnostic is complete. Specifically, we recommend focusing on five cultural attributes of organizations that our Organizational Health Index research has found to correlate with positive TSR and to minimize friction when managed effectively:

1. **Talent.** Identify, attract, develop, and retain mission-critical talent—high performers who are producing value and can ensure top-quality integration planning and leadership of the future organization.

Many M&A executives have admitted to us that they gave culture too little attention, too late.

2. **Role clarity.** Establish clear objectives and accountability for each critical individual and the overall integration effort.
3. **Performance management.** Provide attractive incentives and clearly link rewards to performance.
4. **Customer focus.** Maintain and grow external/customer focus to establish and expand business momentum and keep integration planning focused on what matters.
5. **Decision making.** Make effective decisions efficiently.

These attributes should be top of mind when standing up the integration planning team and throughout the team's planning effort.

Talent

Strong integration planning requires putting the right people at the helm and in the right roles. The integration effort needs self-driven leaders who are comfortable setting and achieving stretch goals and operating in an uncertain environment. This means tapping top talent for integration roles, not just handing roles to people who are available and have capacity.

Top talent is often reluctant to join the integration team and may require an attractive, tailored value proposition to do so. These leaders will also require onboarding and preparation to guide the full integration team, interact effectively with target company leaders, and set the desired tone for the integration effort.

One integration sponsor launched the effort to integrate a small but highly successful, fast-growing company into the acquiring company by sharing a few guiding principles on interacting with the target company's leaders. These principles included "learn before judging" and "pay extra attention to making key design decisions jointly, as a team." The principles did much to avoid overwhelming and distracting the target company's leaders.

Top talent is often reluctant to join the integration team and may require an attractive, tailored value proposition to do so.

Role clarity

Role clarity looms especially large when a deal brings together two very different organizational structures or involves at least one heavily matrixed organization. The effort to organize the integration planning team should anticipate and address potential confusion about the scope of integration leadership activities (versus functional/business unit responsibilities), integration deliverables and due dates, and stakeholder engagement requirements. The integration plan should specify the scope of each leader's responsibility and rewards for strong performance.

Acquiring and target companies often have very different perspectives on leadership. One recent integration planning team sought to establish clarity and consensus from the start. Before any announcement of the combined company's leadership team, the planning team consulted the CEO, chief human resource officer, and select business leaders to create a detailed overview of the roles and responsibilities assigned to every member of the new top team. Making this effort well before the deal's close prepared the combined company to overdeliver on its ambitious growth goals after close.

Performance management

Integration planning should consider how the two companies set and manage performance targets. Company philosophies on setting targets may vary tremendously—from setting ambitious targets that people rarely meet to setting low targets that people always exceed. The integration plan should set clear expectations for meeting cost and revenue targets and define rewards and consequences that reflect accountability for meeting or missing those targets.

One consumer health merger required addressing differences in setting and managing performance expectations to secure buy-in to the deal. Both companies were high-performing, but the acquirer's CEO set top-down stretch goals that were often hard to meet. Missing a target was acceptable as long as people made their best effort. The other company set targets collaboratively, informed by extensive data and debate. People never missed their targets; in fact, they often overdelivered. Bridging these differences required leaders of the combined company to embrace a more consensus-driven approach that involved rich discussions before setting and rolling out targets for value capture to the integration teams.

Customer focus

Even when both organizations believe they are highly customer focused, they probably differ in how they define their customers and how they focus on them. The integration plan should address these differences when setting customer success metrics and determining their priority compared with other performance metrics. To sustain business momentum, the plan should also lay out a tight integration process that requires comparatively few people to execute it, keeping most of the organization focused on customers. The integration steering committee can help keep customers at the center of integration planning by including customer impact in its criteria for evaluating decisions (see sidebar, "'No regrets' actions to include in every cultural integration plan").

Company philosophies on setting targets may vary tremendously—from setting ambitious targets that people rarely meet to setting low targets that people always exceed.

Two industrial companies planning to merge made customer focus a particular priority in their integration planning because the two organizations shared many customers. The integration plan included not only a culture diagnostic of both companies but also interviews asking customers about their experience working with each organization and their aspirations for the integration. These interviews shaped the rollout of the sales and customer service model and created significant goodwill, as customers felt valued and excited to partner with the new company.

Decision making

The process and speed of decision making affect the pace of integration planning. Differences between the two organizations—especially the collision between top-down and consensus-driven decision making—often cause early friction and frustration among integration planning leaders. Thoughtful setup of the integration steering committee, including a clear process for bringing decisions to the committee, can go far toward forestalling these problems.

When a small but nimble basic materials company acquired a much larger competitor, different styles of decision making clashed from the start. The acquirer's CEO made quick decisions, and the company culture had a strong bias toward action. The target's leaders favored collaborative decision making and walked the halls to preview major decisions and get input from executive committee members before finalizing a decision.

The acquirer's CEO recognized that the operations of the combined company would be ten times larger, far more global, and much more complex. His decision making style would jeopardize the combined company's success. The integration planning team encouraged the acquirer and target leaders to clarify the decision making process, especially how integration decisions would get made, who would be consulted, and when they would be consulted. The effort also identified five decisions that the CEO would continue to make and ten decisions that the executive committee would make, delegated to appropriate subcommittees or individuals. The leaders agreed to hold each other, including the CEO, accountable for adhering to the new approach.

Activating the culture compass

Using culture to guide integration planning requires open-minded, even-handed understanding of the five key cultural attributes in both organizations and potential sources of friction that might threaten value capture or talent retention. Successful serial acquirers reflect on and revise these dimensions of their company culture as needed in their downtime between deals; that way, they are always ready to make acquirer–target comparisons. As soon as they have a target in their sights, they take advantage of every opportunity to gain insights into that company's culture. Other dealmakers should follow their lead.

The authors wish to thank Oliver Engert and Mieke Van Oostende for their contributions to this article.

"No regrets" actions to include in every cultural integration plan

Early culture insights should shape the overall integration plan, beginning in due diligence before announcement of the deal. Experience has taught us that every acquirer's cultural integration plan should include five "no regrets" actions:

1. Pick the right people to lead the integration effort and give them the right tools—such as integration boot camps, tutelage on ways of working, and a guide for leadership interactions—to facilitate collaboration with leaders of the target company.
2. Learn from customers how to sustain business momentum—for example, organize advisory panels to hear how customers feel, what excites them, and what concerns them.
3. Define decision rights and the process for making integration decisions, including the business case and data required and contingency plans to break through gridlock.
4. Factor differences in how the two companies set and achieve targets into the target-setting process, taking a thoughtful approach to reconciling differences.
5. Listen to and learn from employees of the target company—establishing an executive presence on the ground, tapping all appropriate communication channels, and creating joint advisory committees for critical integration initiatives.

When a transaction forges a transformation

By Chris Hagedorn, Alex Liu, Jonathan Naharro, and Kevin Van Ingelgem

An approach to M&A integrations that looks beyond combinational synergies can be the starting point for broader transformation.

Now more than ever, executives are under unrelenting pressure to create more value for shareholders and stakeholders. Well-capitalized investors are looking for above-market growth, higher margins, and expanded capabilities. Technological, geopolitical, and other disruptions are increasing the spending with which companies must compete and affecting the very nature of competition. Higher interest rates and inflation have further compounded all these challenges. In this environment, M&A offers executives a powerful lever for executing strategy, transforming the organization, and delivering exceptional value creation—and this lever can be applied across deal types and industries. Consider the following examples:

— A food processing company acquires a cutting-edge technology player to develop the next generation of digitally enabled products and services.

— A global industrial distributor pursues M&A not only to reshape its margin profile but also to design an industry-leading e-commerce platform.

— A consumer electronics company uses a series of acquisitions to reshape the organization from being functionally oriented to being brand-led and, in doing so, attracts critical new talent.

Of course, large-scale transformations like these are not the objective of every announced deal. Some deals are focused only on combining organizations, integrating talent, cross-fertilizing intellectual property, and delivering combinational synergies. Others seek to shore up supply chains or improve distribution. Regardless of size and scope, however, it is always useful for executives to take a step back and systematically explore ways to capture the most value from mergers and acquisitions.

Our research and experience show that four factors are particularly important for leaders to focus on if they want transformational M&A to succeed.

All too often, once a deal is announced, leaders focus primarily on the mechanics required to stand up a viable, combined entity on day one and capture any near-term synergies. They may pledge to revisit transformation opportunities later in the process—and sometimes they do. But often other priorities emerge, and transformation discussions are deprioritized.

Our research and experience show that four factors are particularly important for leaders to focus on if they want transformational M&A to succeed.

— Strategy: Re-imagine the combined business and organization.

— Value: Identify and pursue the full-potential value-creation opportunity for the combined entity.

— Execution: Establish and empower an execution engine for the combined entity.

— People: Attract and develop new talent and capabilities.

Building and maintaining a transformational mindset is critical, too; it is the only way leaders can devise bold integration strategies that create sweeping—not just incremental—change and lasting value.

In this article, we outline the opportunities for leaders to transform their businesses through M&A. Careful consideration of these opportunities should happen at every stage of the M&A life cycle—before target selection, ahead of due diligence, during integration planning, and after deal closing. We also suggest some principles leaders can follow to ensure that they do not revert to thinking only about day one.

The opportunity to transform through M&A

When considering whether a transaction could lead to a core transformation, leaders can vet their opportunities based on how the deal could affect the acquiring and target companies' strategy, value, execution, and people.

Strategy: Re-imagine the combined business

Leaders in both the acquiring and target companies should reflect on the long-term strategy and operating model that would be required to get the most value from a combined organization. In some cases, they will start with a blank slate. In other cases, leaders may have wanted to pursue large-scale transformation all along—but for various reasons could not. With a transaction in the offing, transformation becomes reality. No matter how they got there, leaders will need to articulate which parts of both companies could remain unchanged, which could be integrated or transformed, which should be exited, and the timing of those moves. As part of this strategic discussion, leadership teams should also review their portfolios and identify the capability

gaps and non-core assets that may be candidates for divestiture. With this information, leaders can make critical decisions about whether and how to transform the core business—for instance, which functions and teams will be involved now and which might be involved in future transformation phases.

Value: Identify the full-potential value creation opportunity

Acquirers should perform a comprehensive value creation diagnostic and identify all possible sources of value from a deal, assessing every lever and function, including the effect of M&A on growth, margins, and capital. A bold and long-term view is critical: leaders should anticipate multiple waves of potential value creation over the next two or three years. Rather than playing it safe, they should set financial and performance targets for the combined entity that are ambitious, and even slightly uncomfortable, although still rigorously evaluated.

Execution: Establish and empower an execution engine

For change initiatives to succeed, individuals must be both empowered and accountable. Acquirers may therefore need to rethink their governance structures in the face of transformation through M&A. To speed up decision making, leaders should set up an integration and transformation office (ITO) and actively engage and empower a large cross-section of initiative owners and transformation champions from both the acquiring and target companies. The concept of the ITO is not new, but in our experience, few companies support these offices with the required level of rigor, discipline, and transparency across the organization. This is not your typical program management office; it is empowered by the CEO and the executive team to drive all integration and transformation activities in short cycles, resolve issues quickly, and make decisions based on real-time, data-driven performance dashboards. The ITO's radical transparency and accountability can help take some of the risk out of decision making and make it more likely that the combined entity will capture targeted synergies faster.

People: Develop talent and capabilities

Transformations can be effective talent accelerators, serving as key catalysts for executives to identify the next generation of leaders, put them in stretch roles, and build up their capabilities in ways that allow for success with future transactions and transformations. Indeed, acquirers and ITO leaders can start by identifying those skills and capabilities that will be required to deliver on their bold new aspirations. They can then acquire and nurture talent with different kinds of expertise, and they can establish learning and development programs that support and enhance transformation efforts. Doing so can help not only to ensure the longevity of current deals but also to accelerate development of and expand the talent base for future transaction and transformations.

Transforming through M&A: Key principles to remember

There is always the risk that even the most transformation-minded executives will shift back into autopilot as integration challenges emerge. To guard against this, leaders should keep the following M&A and transformation principles in mind.

Reimagining the combined business

Take the time to think expansively. Despite the pressures associated with closing a deal, leaders need to pause and consider all the possibilities for value creation and a new operating model. To come up with a comprehensive and clear strategic vision for the combined entity, leaders should take an end-to-end perspective on how the deal will affect investors, employees, customers, and suppliers.

For instance, what if a company wants to be the preferred choice of customers for all their needs? What would it take? What new products, services, and business models could the company develop that would allow a step-change in growth? Should the organization shift to global functions to enable increased scale? What best practices could be exchanged across teams and functions, and how would the employee value proposition need to change to attract the required digital and analytic talent?

Build a strategic integration blueprint. A good way to ensure that everyone is aligned on the plans to transform through M&A is to develop a strategic integration blueprint. The blueprint defines the depth and pace of transformation by individual functions over specific time frames. For instance, leadership teams in a merger may decide that, for business continuity, data center operations that are essential for customer service will not change during the first six months of the integration. Similarly, a company may decide to protect the sales force in the first three months after a deal closes to minimize revenue disruption, but then transform the operating model 12 months later to enable sales across the company's entire portfolio of products.

The integration blueprint can help to establish, at a very detailed level, which assets to protect (do not touch), which to integrate (combine), or which to transform (take a cleansheet approach) before any downstream integration work begins. The blueprint can also help to establish tight linkages across the deal rationale, the value creation objectives, and any tactical execution plans. The blueprint should be drafted early, during the due diligence phase, led by the ITO and supported by senior executives and functional leaders. They can ferret out any critical due diligence questions to be answered and interdependencies and complexities among functions. They can identify the transformation opportunities and determine the best sequence of actions to capture them.

Align on goals. Faster profitable growth and digital transformation were the goals in a merger of two industrial services companies. The two had a complementary set of product portfolios, but both organizations were highly fragmented, with multiple semi-autonomous business units. For instance, the combined entity would have needed to integrate more than five enterprise resource

planning (ERP) systems and data platforms. With that in mind, the leaders devised a detailed, expert-tested integration blueprint that covered financial, operational, and capability-building investments. Because the blueprint had been established up front, the combined entity was able to capture value more quickly than it would have otherwise—namely, a more than two-fold increase in stock price and more than 40 percent of targeted synergies achieved in the first year of the merger.

Optimize the company's portfolio as part of the integration. In most mergers and acquisitions, there will always be some acquired assets that do not fit in the combined company. Yet executives are often slow to divest assets that do not fit the future strategy. It is critical to assess each asset to determine its attractiveness and whether the combined entity is still the best owner. Indeed, our research suggests that successful acquirers divest one-third of what they acquire, and they do so quickly.[1] A comprehensive review of the entire combined portfolio can reveal which non-core assets could be considered for divestment and can help leadership teams refine their M&A requirements for future acquisitions. Through this review, leaders can also identify opportunities to reduce debt.

Such an exercise can support a significant transformation in both a company's assets and capabilities. For instance, one acquirer in the life sciences industry reviewed its entire portfolio and determined that, given its newly trained focus on its surgical business unit, it would divest a medical supplies business unit. The life sciences company also ended up pursuing several bolt-on deals to further its value creation goals in the surgical space.

Identifying full-potential value-creation opportunities

Move aggressively on revenue, cost, and capital; activate the entire organization. McKinsey research shows that taking a full-potential approach to value creation in M&A can double a company's likelihood of capturing synergies and exceeding initial goals by more than 20 percent, since revenue growth creates 60 percent of excess returns to shareholders.[2] It is critical to take stock of all possible synergies associated with a deal—whether the goal is to transform, integrate, or protect core parts of the business. Leaders need to use all manner of data to conduct this assessment—including executive interviews, current and historical organizational performance, benchmarks, subject matter experts' input, and "radical thinking" workshops, where executives explore various theoretical scenarios such as: How would you prioritize growth if you had only 50 percent of the current budget? Leaders can then use this information to build a robust baseline and challenge the preliminary value creation targets that were set during the due diligence phase.

Taking the long view. The critical point here is to take a long-term view— anticipating several waves of potential value creation over a two- or three-year period. That is what leaders at one European packing business did in a merger with a U.S. counterpart. The leadership team built a robust baseline for all the European and U.S.-based business units and led an in-depth financial

[1] Capital IQ; Deal Patterns 2019, n = 14,529 (all deals by Global 2,000 acquirers, globally from 2010 to 2022), McKinsey analysis, using S&P Global Industry Classification Standard data; McKinsey M&A Capabilities Survey 2023; Corporate Performance Analytics by McKinsey.
[2] Ibid.

diagnostic across functions. Working closely with the CFO and head of financial planning and analysis, the leadership team set ambitious full-potential financial and operating targets over a half-decade. By taking the long-term view, the merged entity was able to realize a 45 percent increase in EBITDA and more than $1 billion in value creation for shareholders by the fifth year of the deal.

Building an execution engine

Create accountability and focus on speed. Strong governance is critical when it comes to M&A integrations, but even more so when pursuing transformation through M&A. Many organizations claim to have such governance in place and yet, in our experience, few support it with the level of rigor and discipline required to successfully deliver value over the long term. Often at the first sign of a value capture “boost,” leaders phase down their ITOs, work streams, and accountability efforts, satisfied with the immediate gains. Instead, leaders should lean into the success and double down. It can be helpful, for instance, to empower the integration and transformation lead, who, like the CEO, is focused on value creation and has the authority to make rapid decisions. It can also be helpful to identify and activate a series of initiative owners (from dozens to hundreds of individuals, depending on the size of the deal) who can own business case development and the planning and execution of initiatives.

As integration and transformation initiatives gain steam, leaders should also establish rigorous stage-gate approval processes involving the respective integration work stream sponsors, partners from finance, and leaders in the ITO. This group can draw detailed business cases and plans and help to determine the sequence in which they are being pursued and how they are being funded and staffed. Additionally, leaders in the ITO should conduct data-driven performance dialogues and frequent check-ins to hold initiative owners accountable, remediate risks and potential errors, and ensure that milestones are being met. For instance, the European packaging company mentioned earlier held transformation leaders accountable by adopting a scorecard system to measure the outcomes of various initiatives and scheduling weekly business reviews with the chief transformation officer.

Leadership teams may want to bolster their capability-building with programs that focus on prioritization, problem-solving, and influencing and persuading—all themes that are critical for sustained transformation.

Developing talent and capabilities

Launch a talent accelerator. Integration—and particularly transformation through integration—is a long game that requires a deep bench of talent and expertise. Acquirers will need to call on their A players (high-potential managers in their organizations) to plan and support the execution of transformation initiatives. Acquirers can also create vibrant employee value propositions, or revisit and update them as needed to support the creation of new roles and leadership positions for employees from the target company.

In this way, the integration process becomes a means to develop the next generation of talent—in the combined entity and in the acquiring company. Indeed, leadership teams may want to bolster their capability-building with programs that focus on prioritization, problem-solving, and influencing and persuading—all themes that are critical for sustained transformation. They may also want to establish training in leadership development and various forms of functional excellence (operations, procurement, commercial).

That was the case at one mid-sized chemical company. It used a merger to elevate the role of the procurement function: the companies in the merger, each with revenue of about $500 million, had historically used procurement solely for basic order taking and vendor management, and procurement teams rarely had seats at the table when operational and commercial decisions were made. All that changed after the merger. Roles within the function were elevated, and within the first six months of deal close, the company offered more than 100 hours of training to procurement employees so they could fulfill the function's expanded responsibilities. Through the transformation, the procurement function went from the lowest maturity level to one that was functionally advanced.[3]

Not every merger or acquisition calls for large-scale transformation. But many deals represent catalysts for substantial change, as well as opportunities to create more value. Leaders need to take the time up front (balancing day one urgencies associated with M&A with longer-term strategy) to consider the transformation opportunities inherent in a deal. It will mean re-imagining the combined business, assessing the long-term full-potential value of the deal, building an execution engine, and developing the talent and capabilities needed to sustain change. It will require viewing traditional integration tasks through a transformation lens and taking a bold and strategic approach to change.

The effort can pay off: when leaders approach M&A with transformation in mind, organizations can achieve more value, faster, with less risk, and do so sustainably.

The authors wish to thank Roshan Vora for his contributions to this article.

[3] Mary Delany, Alex Liu, and Aasheesh Mittal, "Using M&A to transform procurement," McKinsey, March 1, 2023.

Spotlight on Asia

Creating value with M&A in Asia's diverse marketplace

By Anushree Awasthee, Roerich Bansal, Kenneth Bonheure, and Daisuke Nozaki

Multinationals continue to look for opportunities in the region's fast-growing countries with less geopolitical risk.

Despite global M&A volatility that began with the pandemic, dealmakers continue to find growth opportunities across Asia–Pacific (APAC). The region contributed more than 45 percent of global GDP and roughly two-thirds of global economic growth in 2023, even though China's uptick after its postpandemic reopening is fading sooner than many observers expected.[1]

Research suggests that in the year ahead, Asia will be home to more than 80 percent of the world's "new consumers"—tens of millions of people who can afford to spend $12 or more per day for the first time—and that the consuming class will outnumber the vulnerable and poor in the region for the first time in history.[2]

That growth helps explain why large companies and investors around the world are considering acquisitions in the region despite continued economic volatility and geopolitical uncertainty. While APAC deal value fell by about 19 percent in 2023—reaching its lowest level since 2013—it still accounted for about a quarter of global activity, in line with the five-year average (Exhibit 1).

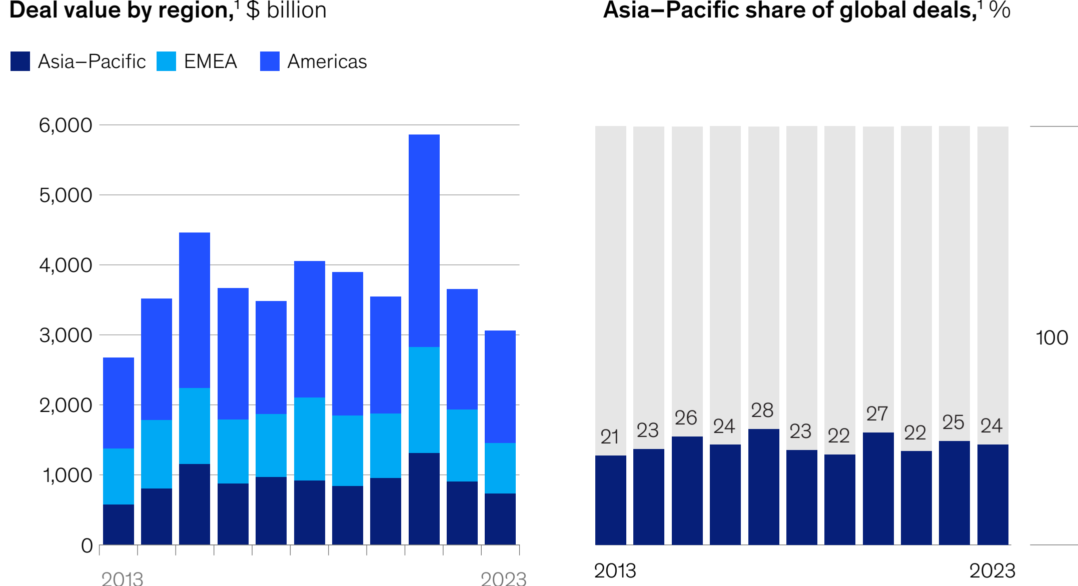
1 "Asia and Pacific Datasets," International Monetary Fund, accessed January 12, 2024; estimate based on purchasing power parity; "Regional report: Challenges to sustaining growth and disinflation," IMF, September 27, 2023; *IMF Blog*, "Asia continues to fuel global growth, but economic momentum is slowing," blog entry by Yan Carrière-Swallow and Krishna Srinivasan, October 13, 2023.

2 2024 World Consumer Outlook, World Data Lab, November 9, 2023; see also Juan Caballero, Wolfgang Fengler, and Homi Kharas, "Asia's tipping point in the consumer class," Brookings Institution, June 2, 2022.

About 65 percent of deal value in 2023 occurred in four sectors: energy and materials; advanced industries; tech, media, and telecom (TMT); and financial services.

Exhibit 1

Asia–Pacific continues to account for about a quarter of global deal activity by value.



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

Domestic in-country activity within the region still accounts for more than 70 percent of M&A value, but the share of activity originating from the Americas and Europe, the Middle East, and Africa (EMEA) rose in 2023 (Exhibit 2).

Many acquirers in slower-growth regions, especially the United States and the European Union, found promising targets in APAC in the fastest-growing countries and in those with less geopolitical risk, such as India—which many economists expect to lead the region with annual growth of about 6 percent in the years ahead—as well as Indonesia, Malaysia, and Vietnam.[3]

In contrast, GDP growth in 2023 was just 0.6 percent in the European Union and about 2.6 percent in the United States.[4] Foreign direct investment in China declined in 2023, partly because of geopolitical tensions and tougher regulatory scrutiny.[5]

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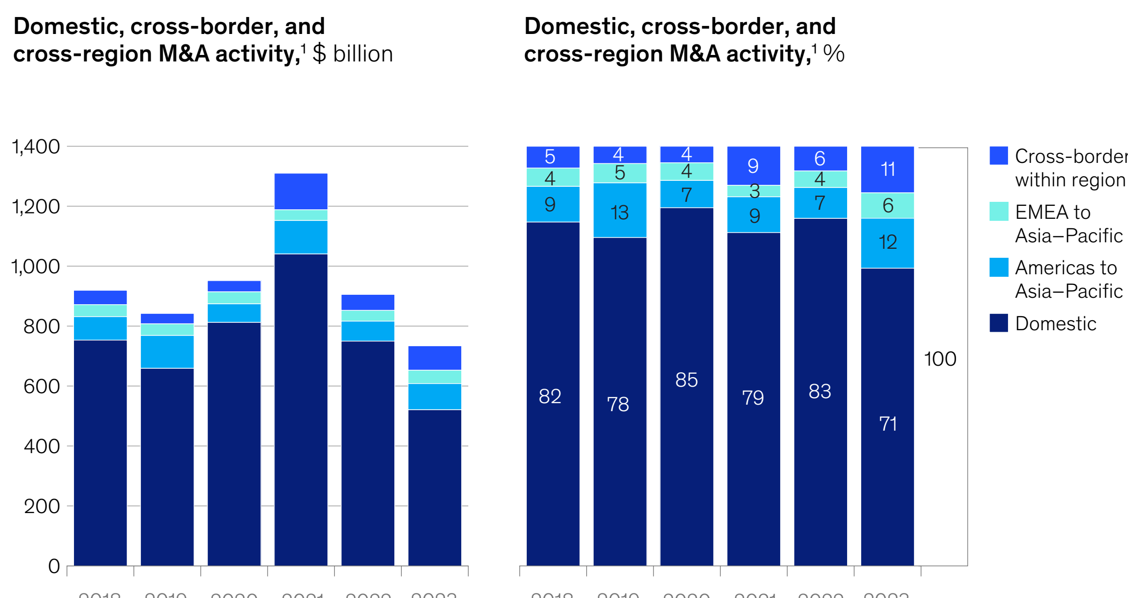
[3] Milounee Purohit and Devayani Sathyan, "India to remain fastest-growing major economy, but demand uneven: poll," Reuters, November 27, 2023.

[4] "Autumn 2023 Economic Forecast," European Commission; "Ten charts that explain the U.S. economy in 2023," White House, December 19, 2023.

[5] Nicholas R. Lardy, "Foreign direct investment is exiting China, new data show," Peterson Institute for International Economics, November 17, 2023.

Exhibit 2

The value of inbound acquisitions from the Americas and EMEA rose sharply in 2023.



[1]Deals announced (and not withdrawn) of value greater than $25 million.
Source: Dealogic; McKinsey analysis

The region overall had net-positive deal inflow for the first time in five years. Most net inbound activity was in Australia and India, offset by Japan, which saw more outbound than inbound deals in 2023. Cross-border in-region deal value rose from 7 percent of total inbound activity to about 12 percent, due mainly to a few large deals between companies in Singapore and Greater China. Investors in the Middle East are showing more interest in the region.

About 65 percent of deal value in 2023 occurred in four sectors: energy and materials; advanced industries; tech, media, and telecom (TMT); and financial services.

Deal value varies widely by country and sector, of course. Energy and materials—disproportionately large industries in Australia—led the way, followed by advanced industries and tech, where many acquirers seek to gain scale to become more competitive, set the stage for larger investments, and capture opportunities in growing countries.

Multinational companies (MNCs) headquartered in countries where growth is slower will continue to look for opportunities in APAC as they enter new businesses, diversify, advance decarbonization and sustainability initiatives, and consolidate operations. And as disruptions accelerate in nearly every industry, many companies will see M&A as a key to reorienting their strategies and business models.

Some will manage the risks of entering complex new marketplaces through partnerships and smaller acquisitions. Deals worth less than $1 billion represent about half of M&A deal value in Asia today compared with the Americas, where only a fourth of value is represented by transactions under that threshold.

Powerful trends are now driving inbound dealmaking

Sophisticated investors and strategic acquirers know that finding and vetting suitable targets can require exceptional insights and skill, including strong local deal teams and relationships with local stakeholders, including business leaders and government officials.

They also understand the potential challenges of due diligence in the region. Many countries in APAC impose fewer regulations on companies than do the United States or European Union; for example, target companies may disclose less about their accounting and risks, and governance may be less strict. And once a deal is closed, cultural, legal, and political differences can make integrating an acquisition more difficult.

Despite these and other complexities in the marketplace, four main trends emerged in 2023 that we expect to drive inbound deal activity by MNCs in Asia in the year ahead:

1. The energy transition is driving more transactions. As the world continues to shift toward renewable and cleaner energy sources, traditional global energy giants, asset management companies, private equity firms, and commodity companies are diversifying their portfolios and investing in renewable energy businesses, sustainable technologies, and mining and materials in APAC.

   This shift is being driven by government policies and regulations aimed at reducing carbon emissions, rising consumer demand for sustainable products and services, and advances in the cost-competitiveness of renewable energy sources.

   Energy-related transactions in 2023 included Brookfield Asset Management's commitment to invest up to $1 billion in Avaada Ventures in India to support the company's production of green hydrogen, methanol, and ammonia, as well as its solar manufacturing and renewable power-generation ventures.[6] In May, Japanese petroleum company ENEOS said it was considering the IPO of its subsidiary JX Nippon Mining & Metals, aiming to refocus on sustainable development.[7]

   We expect sustainability-related dealmaking—among manufacturers of electric vehicles and powertrains, for example—to keep accelerating. Many European original equipment

[6] "Avaada Group successfully closes historic INR 10,700 Cr ($1.3 billion) funding round, reinforcing its commitment to green energy," Avaada Group press release, June 30, 2023.
[7] "Eneos considers IPO of metals division JX Nippon Mining & Metals," Mining Technology, May 11, 2023.

manufacturers (OEMs) and suppliers seek access to Chinese OEMs and tier-one vendors of e-drive technology. Stellantis, for example, announced in October 2023 that it would invest $1.65 billion in Leapmotor, a Chinese leader in electric vehicle (EV) technology.[8] The continued decoupling of the EV technology ecosystem will spur many other automotive players—especially those who wish to do business in China—to partner with other Chinese technology firms.

2. Consumer-facing sectors are becoming more attractive for cross-border transactions. Each year, tens of millions of people in APAC join the consuming classes—those able to spend $12 or more per day, measured in 2017 purchasing power parity. Brookings reports that India and China each added about 30 million people to this group in 2023.[9] These new shoppers represent some of the largest growth opportunities for consumer-facing companies around the world, from cosmetics to car companies. For example, Japanese insurance company Dai-ichi Life Holdings invested $40 million in RenewBuy, a leading insurtech company in India, to grow in the underpenetrated and ever-larger Indian market.[10]

Carve-outs and divestitures should continue as companies align their portfolios with overall strategies and shed low-growth, low-margin businesses.

3. Performance pressures will continue to provide deal opportunities. Carve-outs and divestitures should continue as companies streamline subsidiaries, affiliates, and business units to align their portfolios with overall strategies and shed low-growth, low-margin businesses.

   Rising shareholder activism in Japan, Korea, and a few other countries in the region will spur some companies to restructure, make portfolio changes, or even agree to be

[8] "Stellantis to become a strategic shareholder of Leapmotor with €1.5 billion investment and bolster Leapmotor's global electric vehicle business," Stellantis press release, October 26, 2023.
[9] Juan Caballero and Marco Fengler, "China and India: The future of the global consumer market," Brookings Institution, April 14, 2023.
[10] "Investment in RenewBuy, a leading digitized insurance distributor and insurtech company in India," Dai-ichi Life Holdings press release, July 19, 2023.

acquired by private equity firms or merge with competitors. Toshiba, for example, responded to activist investor pressure by continuing its divestitures and eventually agreeing to an approximately $15 billion acquisition by a consortium of strategic investors and a local private equity fund.[11]

The number of companies subjected to activist demands across the region has risen markedly in recent years, increasing Asia's share of the global total from 10 to 23 percent in 2023, overtaking Europe.[12] The Tokyo Stock Exchange has asked companies with low price-to-book ratios to publicly announce their initiatives to address performance, for example. This has prompted some conglomerates to reconsider their portfolios and divest underperforming and noncore assets, in many cases to private equity buyers.

4. Companies will continue to consolidate and restructure to increase scale, boost efficiencies, and grow. In an uncertain macroeconomic environment, we expect to see continued consolidation to scale up, strengthen business platforms, improve cost competitiveness, and enter new markets. For example, InVivo, a French agribusiness leader, acquired United Malt Group in Australia for $1 billion, part of a plan to become the world's top malt producer and double the size of its malt business.[13]

Four capabilities will distinguish the most successful acquirers in APAC in 2024

Although the APAC region faced multiple market and macroeconomic challenges in 2023, many clients tell us they have a stronger appetite for deals in 2024, pointing to expectations for more macroeconomic stability due to factors such as robust GDP growth in most parts of Asia, softening inflation and interest rates, and more supportive policies and regulations in many Asian countries.

Learning from the best programmatic players and our experience in working with leading companies across industries and around the world, we have identified four main capabilities that distinguish the most successful acquirers in the region:[14]

1. They have a deeper understanding of individual markets in APAC and build relationships to create a pipeline of deals. Investing in outreach to potential targets and partners and building trusted relationships with local business and government leaders can help advance discussions, reveal challenges, and improve the chances of success, especially in smaller markets where few high-quality targets may be available.

[11] Miho Uranaka and Makiko Yamazaki, "Toshiba approves share consolidation plan and delists on December 20," Reuters, November 21, 2023.
[12] "The rise of the Asian activist investor," *Economist*, August 31, 2023.
[13] Sybille De La Hamaide and Harish Sridharan, "Australia's United Malt agrees to $1 billion takeover offer from France's InVivo," Reuters, July 3, 2023.
[14] For more on this topic, please see Karambir Anand, Anushree Awasthee, and Kenneth Bonheure, "M&A and Asia: Learning from the best," McKinsey, February 17, 2022.

Several M&A teams at a manufacturing firm headquartered in Asia keep constant tabs on more than 60 potential acquisition targets, reviewing progress each week. Team members maintain dialogues with targets' senior leaders for three to five years, building trust and understanding until deals can be reached.

McKinsey's DealScan offering uses target-finding algorithms and visualization software to explore its detailed data on 40 million companies around the world, helping clients understand potential targets in core and adjacent markets and in niche markets.

2. They build and empower local M&A teams. Many MNCs set up regional headquarters in Asia to pursue investments there without adequately staffing local M&A teams or giving them decision making rights to pursue deals up to a certain size. An expanded and empowered deal team can help build an extensive pipeline of high-quality targets and move faster to close deals in the face of competition.

   For example, a multinational services company in Asia maintains an M&A team in Singapore with a mixture of professionals such as former bankers, consultants, and executives of firms it has already acquired. The team is quick to assess the quality of potential targets—and highly credible when it presents proposals in person to those targets, thereby enriching its strong deal pipeline across the region.

3. They explore a wider variety of deal mechanics. An outright 100 percent acquisition can be risky and costly—and may not be feasible due to restrictions on foreign investments in some sectors. Multinationals may therefore need to consider a variety of deal structures—such as joint ventures, strategic alliances, and minority investments—to test the waters and build working relationships with targets, understand local business and regulatory nuances, and manage cultural differences. Using these structures can also help manage the gaps in valuation and risk expectations of both parties, while tapping into local partners' competitive advantages and market access.

   Companies in Asia can have diverse objectives in M&A. Some seek access to global markets through acquisitions by multinationals, for example, and others need technology support to upgrade product quality. A founder family may be looking for an exit but want to keep a stake or maintain some influence over decision making. Some may aim to enter a new business while maintaining the overall "brand" of the conglomerate, and many seek to manage regulatory requirements and governmental restrictions. Balancing these and other diverse objectives can complicate dealmaking—and warrant novel deal structures. For example, a leading US investment firm entered India's asset management industry by investing about $150 million to form a joint venture with a local financial services firm.

4. They adapt to new ways of working and cultural nuances during integration. As noted in "The culture compass: Using early insights to guide integration planning," 44 percent of the 1,100 M&A leaders we surveyed in 2023 pointed to lack of cultural fit and friction between the acquiring and the target companies as the top reason that integrations fail. Cultural challenges can be especially pronounced in deals between western and Asian companies.

We urge acquirers to pay close attention to cultural differences—working norms, governance practices, and how decisions are made—at every stage of integration.

We urge acquirers to pay close attention to cultural differences at every stage of integration, especially "the way things are done"—such as working norms, governance practices, and decision-making processes—at acquired or partner companies.

For example, when a US-based electrical equipment manufacturer acquired part of a Japanese conglomerate, it spent a couple of months carefully evaluating both companies' cultures. Based on gaps and unique strengths it identified in workshops, the manufacturer developed a holistic action plan to align both organizations with a new shared culture. (For more on this topic, please see "The culture compass: Using early insights to guide integration planning" and "M&A and Asia: Learning from the best.")

Conclusion

The APAC region will continue to offer extraordinary growth opportunities in some of the world's largest industries. But each country in APAC is unique and presents potential acquirers with a wide array of shifting opportunities and risks. We expect the most successful dealmakers to invest heavily to maintain deep, up-to-date insights into those marketplaces and into the stakeholders who can determine the ultimate outcome of any deal—from local communities and employees to shareholders, legislators, regulators, and consumers.

Equipped with this knowledge and a commitment to careful, culturally astute integration, the most sophisticated investors and strategic acquirers will create enormous value in APAC in the years ahead—not just for their own shareholders but for the entire region.

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Top M&A trends in 2024

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