

Silver Linings in the M&A Outlook

To BCG's network around the world,

M&A activity has slowed considerably in 2022—down 36% in the first ten months of the year, compared with the same period of the year before. Today's headwinds include a darkening global economic forecast, with many economies facing recession. Rising interest rates make loans too pricey for many, hindering potential deals. And sellers and buyers are having trouble seeing eye-to-eye, a price gap that continues to grow.

All of this makes for an environment in which fewer entities are willing to sell—an overall negative trend that could last a few quarters. But there's another side to the M&A outlook story, and it includes tailwinds that business leaders might want to consider.

Broader macro trends are picking up speed now and will likely continue. Among these is the practice of investing in suppliers in the smart pursuit of a resilient supply chain. In September of this year, Germany-based Schwarz Group, owner of supermarket chains Lidl and Kaufland, did just that when it agreed to buy Finnish Stora Enso's Maxau paper production site.

Plus, there's money on the table. Financial investors have record levels of capital at their disposal right now. Corporate investors, too, have cash on their balance sheets that could be directed toward the right deals. This means there is still activity ongoing, though the focus has turned to selective, judicious due diligences and target searches.

This is smart. Our research shows that downturns can be the best times for prudent deals, as markets reward dealmakers that take the risk of pursuing acquisitions in a weak economy. One year after an acquisition, buyers' relative total shareholder return (RTSR) is nearly 7 percentage points higher for deals done in a weak economy than those done in a strong economy. After two years, the differential increases to more than 9 percentage points. During the global financial crisis of 2007 to 2009, there were a variety of successful deals across industries, ranging from Sanofi's acquisition of Genzyme to BlackRock's takeover of Barclays Global Investors (BGI).

In addition, we see two M&A trends that are independent of the current economic environment and will continue to provide significant momentum over the coming years. The first is the ongoing need for companies to invest in digital transformation. Many organizations are still behind the curve when it comes to applying digital technologies at scale, and dealmaking can be an efficient way to make progress. Industrial companies have been leading the way, with Hitachi's recent acquisition of digital engineering and design player GlobalLogic and Siemens' takeover of IoT startup Wattsense.

The other bright spot for M&A today is the focus of [BCG's recent 2022 M&A report](#): green dealmaking, which has more than doubled in volume in the past 20 years. Utilities reliant on coal- or gas-based power generation, for example, are looking toward deals that help them shift to wind and solar. Denmark's Ørsted has done this successfully since 2009, and Germany's RWE is trying to do the same with its recent acquisition of Con Edison in the US. At the same time, retailers are using M&A to double down on recycling and waste management in their supply chains.

Environmentally focused M&A is expensive but worth the price tag in terms of value creation; green deals consistently show higher returns than nongreen deals both in the short and medium term. Nongreen acquirers generate higher value from green deals (and vice-versa), and our research shows green dealmaking outperforming in a weak economic environment.

It may be a more challenging M&A market for both sides in the near term—and tempting to hunker down. But with the current tailwinds, the advantages of deal hunting in a downturn, and the opportunities in digital and green, we expect activity to keep growing. Companies that make these investments now will be fortifying their own resilience—and better prepared to shine when the economic outlook improves.

Until next time,



Christoph Schweizer
Chief Executive Officer

Further Reading



Do Green Deals Create Value?

Many acquirers are generating short- and long-term returns from environmentally focused M&A, but others are struggling to succeed.

[READ MORE →](#)



The Winning Moves in Green Dealmaking

By applying the lessons learned from success stories, companies can use M&A and other transactions to accelerate their environmental transformations.

[READ MORE →](#)



Dealmaking Remains Active as Dark Clouds Form

Corporate and financial acquirers are pursuing M&A targets more cautiously, but they have not closed shop.

[READ MORE →](#)