



GEORGIE FROST: Welcome to The So What from BCG, the podcast that explores the big ideas shaping business, the economy and society. I'm Georgie Frost. In this episode, M&A activity is picking up, but the markets are still in wait-and-see mode. Sit on the sidelines for too long, though, and you could miss your moment. Joining me is Daniel Friedman, BCG's global leader of transactions and integrations. Danny, what's your "so what?"

DANIEL FRIEDMAN: We've had actually a rough start of the year with the M&A markets being quite slow. However, I think we're starting to see some light at the end of the tunnel with the market stabilizing and I think there's a lot more activity starting to happen. Now is the time for action to do thoughtful planning, preparation, and get ready to actually go after the opportunities the M&A market presents as the market actually reactivates in the second half of the year.

GEORGIE FROST: So it seems we're at a turning point across regions and sectors. There are early signs of recovery in M&A activity. The market is hesitating, but should you? In slower conditions, the bold can get ahead: more time to assess opportunities, stronger discipline on valuations, create private markets, and the chance to seize deals that may be more attractive now than they were before. So what should you be doing now so you're ready to take advantage when momentum returns?

DANIEL FRIEDMAN: Towards the end of last year, I think there was a lot of expectations by us and probably the whole market that, after two years of relatively slow M&A, the market would reactivate. There was a new administration coming on board in the U.S. I think the regulatory environment, not just here, but also in Europe, was expected to be more open. Interest rates were stabilizing, the economies were relatively strong and there was a sense there was a lot of pent-up demand, a lot of dry powder if you will.

However, we all know what happened right after January with all the trade turbulence. That created a ton of uncertainty in the market, and if there's one thing that markets hate is uncertainty. Basically the M&A market remained totally flat and that's what we've seen in the first half of the year.

In spite of record levels of dry powder, about \$10 to \$12 trillion on the corporate side, and about two trillion on private equity, I think most corporations and private equity players have remained on the

sidelines waiting for the dust to settle to see where all these trade deals will go—what will be the impact on interest rates and the economy.

The other factor has been, larger deals had not been happening. Nobody wanted to look like a fool taking a big bet in a very uncertain environment, and so, most players actually remained in the sidelines on a wait and see mode. And that takes us to this summer where things are starting to turn as you mentioned.

GEORGIE FROST: So what is different now then than the optimism that we had at the end of last year? Because forgive me, Danny, the world doesn't seem any more certain. Are we just more used to uncertainty?

DANIEL FRIEDMAN: I think yes. As I've had discussions with my clients and investment bankers, private equity, I think there's also a realization that we live in a new reality, that there is a level of uncertainty that is not totally going to go away.

So the question more is, will people just remain on the sidelines in a wait-and-see mode? Or will there be an adjustment to expectations about living with a level of uncertainty and the level of risk? And the question is more, there's always risk in life and in business, how do you manage that risk and what risk is okay to take and not, and how do you assess it and how do you prepare for it?

And I think what we're starting to see now in the last weeks and month is some players getting back into the market probably with this new assessment of reality. There are some parts of the economy that are more insulated from this trade uncertainty within each region, within each market.

One example of that is the very large Union Pacific-Norfolk deal that just got announced: train transportation cross continental within the US. While it might be affected by, of course, the economy and the state of things, it's not a direct trade impact. And so I think there's pockets where there's less risk and there's also the players adjusting expectations and managing risk, and I think that's beginning to change.

So there's a bit more stability, a little less uncertainty, although we're not totally there. And there's also change of expectations, and those two things are actually enabling probably more deals to actually happen now.



GEORGIE FROST: In terms of the recovery, how fast are you expecting it to be? You're expecting perhaps one or two big deals and that'll set the ball rolling, or is it going to be a bit more slow and steady?

DANIEL FRIEDMAN: Yep. I can't be sure about that. However, I'll say this, there's record levels of dry powder available in the market, so there's a lot of pent-up demand from that. Second, there's structural reasons why M&A should be and could be happening a lot more, like digitization, AI, I think that's causing a lot of deal activity. We saw some of that in semiconductors, different companies building capabilities and building into that.

At the same time also, I think there's a lot of pent-up demand on the private equity side where, for private equity players to actually be able to continue raising capital, they have to materialize assets that they have in their portfolio and bring them to market and return capital to their investors, to limited partnerships, and then be able to raise more capital. So I think on the private equity side also, there's a lot of pent-up demand.

We're starting to see some of that activity restarting. As I talked to some of my private equity partners, they're actually starting to see a lot more activity and also deadlines of some of those due diligences coming up. So we could see at the end of this summer, beginning of the fall, a lot more activity also in the private equity side.

And so, I think all this points to the direction of a reactivation of the market. And so, to your question about how fast, I would expect, actually faster than not because of all this pent-up demand. And there's also a little bit of a psychology of the market once you start seeing, players start seeing, people getting into it, we could see actually a relatively fast reactivation in the coming months.

GEORGIE FROST: More specifically, just digging into some of that activity, we spoke about the picture is across regions and sectors, but are there any areas that are particularly active right now?

DANIEL FRIEDMAN: So first, from a geographic perspective, Europe and North America actually have remained low but relatively stable. Asia Pacific was hit pretty badly in terms of deal volume. I think the economies in Asia Pacific, many of them are actually quite exposed to trade, and so, it's not

surprising that there was even more slow down and wait-and-see in Asia Pacific.

I think Asia Pacific is still lower than Europe and North America, however, we're starting to see an uptick of activity and expectations in all three regions. The sharpest uptick is actually in Asia Pacific. We have this metric that we've developed based on AI called the BCG M&A Sentiment. We've had it running already for over a year, and so, while it's remained a little bit below average, and in Asia Pacific, in particular, quite low, in the last weeks, we've seen a very sharp uptick in expectations in all three regions.

And the fastest is Asia Pacific, partly because it's starting from a very low position, but also partly because what I was saying before, I think, the market is starting to see a reactivation. And so, there's a lot of pent-up demand, and so we see a lot more activity and expectations about more activity coming up.

GEORGIE FROST: And sectors?

DANIEL FRIEDMAN: On the sector side, I was looking at the data just in the last days, consumer and industrial goods were particularly hard hit at the beginning of the year. We saw a lot more drop in activity probably because of the exposure to trade and will all this lead to consumer demand going down and potentially in a recession?

And I think we're seeing now a reactivation in those areas, but also across all the industries. Technology has always been relatively active. We're seeing an uptick there. Health care, same thing. I think all sectors, we're starting to see an increasing activity. Again, historically this remained relatively on the average side, but I think in all places we're seeing an uptick.

GEORGIE FROST: What do you think could be a big risk that would impede this recovery?

DANIEL FRIEDMAN: So the two things that worry me the most is an economic shock to the system, either because we take a significant step back from trade discussions—I think that could create a lot of uncertainty. Again, that may create inflationary pressure, which would cause interest rates to go up, cost of capital to go up, and that would create more uncertainty and deal flow probably would stop.



The second risk factor is geopolitical. We still have the Russia-Ukraine war going on. While there's trying to be resolution, who knows where that goes? And if that gets worse or the situation in the Middle East, that could also cause a shock to the system.

GEORGIE FROST: While undesirable, none of those fears are impossible. So just spell it out for me. What is so wrong, Danny, with waiting on the sidelines until the picture looks a little bit clearer?

DANIEL FRIEDMAN: It's a great question. If one waits in the sidelines, there could be deals that fit the strategy of a company and enable massive value creation. We know there's actually a weight in companies that actually create significant value, serial acquirers that create value over and over again. So sitting in the sidelines means you're giving up opportunities to actually accelerate your strategy and create value, whatever your strategy is through M&A.

Second, we know also that deals in the downturn, or when the market is slower, generate five to six points higher total shareholder return than the deals in a frothy market. So being bold and smart around making the right type of deals that fit your strategy, not overpaying and executing a rigorous post-merger integration to actually deliver the value, and doing that early enough in the market that actually you get the assets that make sense that are available, create potentially private markets so you don't actually overpay for them, and materials value, can significantly add value to shareholder return, value to the company. Waiting in the sidelines means you're giving up on all of that and giving up position in the marketplace.

GEORGIE FROST: You said that downturn deals tend to deliver more value than boom time ones. Firstly, why is that? But secondly, is there a greater risk of it falling through or something going wrong during downturns? I'm assuming we're judging this for the ones that are successful, right?

DANIEL FRIEDMAN: Yes. So doing deals when the market is not as frothy and excited, where prices are getting jacked up and up and up and up, actually allows for making sure you don't overpay for those deals. Second, also, we believe very strongly, I believe very strongly, in strong preparation—in due diligence.

Having the right M&A strategy to assess first of all your portfolio, what are the areas that are creating value for you and what are the types of deals that

would create value, whether it's at your core by consolidating a position and building scale or it's going to an adjacent space with higher growth, higher margins that allow for cross-selling opportunities or extending the market.

And so, I think there's opportunity to actually think thoroughly about the strategy: assessing these areas, assessing the right targets, evaluating them thoroughly. I think in uncertainty, one thing that I think is quite helpful is to really rigor-test the logic. So once you have the right strategy and the targets, think about scenarios.

What could go wrong if we have some of these shocks? How negative could the economy turn? Paint the corners around what's the risk and what are you willing to live with. If you have the time and the rigor to actually do all those evaluations, there's a greater chance or not that you make the right choices.

GEORGIE FROST: What can a company do to ensure that it finds the right deal?

DANIEL FRIEDMAN: Engage in the market, I think also having an always-on M&A capability, thinking about M&A just the way you think about organic growth and thinking about your strategy and making sure that the line leadership, or the line management is ongoing thinking about, "How do I extend and drive my strategy thinking about M&A the same way I'm thinking about organic growth?"

And I'm in the market talking to targets, talking to potential partners, and building relationships. And what I've seen a lot is when that happens, it may lead to joint ventures in the short term, it may lead to opportunities. You have a greater chance of actually creating potential private markets where you're the only one bidding on a particular company.

You have better chance to working out the culture and the ways of working, and that also increases the chances of success from a post-merger integration perspective. You have higher level of alignment with the board, you have higher level of ownership by the line management, accountability for the deals.

There's a lot of good things that happen when you have the combination of an always-on M&A capability, a strong team at the center doing the rigor testing, the evaluations, the due diligence I talked about. Then being fast to jump at the opportunities at the right time in the market



because you'll be well-prepared and there's strong ownership and you always have almost a portfolio of potential deals that you want to carry forward, and you're able to move fast towards them.

GEORGIE FROST: You touched on it a little bit earlier when you spoke about the changing world that we're living in or the changed world and what that means for M&A. I want to dig into that a little bit more and how it's changing M&A. Is due diligence becoming more important, more rigorous? You mentioned there about scenario planning. What does it look like now, do you think?

DANIEL FRIEDMAN: Great question. So I think first in terms of the core M&A I would say portfolio strategy, M&A and PMI carve out capabilities, I think all the best practices that we talk about are even more important now in this environment with more uncertainty than ever. Why? Because you have to make sure you have a great value thesis that you can actually articulate how you are the best buyer for a particular asset, or if there's a particular part of the company that you're not the best buyer, that you're able to offload that through divestiture.

On the buy side, that you're able to actually do a strong due diligence and not really understand the risks and how you create value. And then, on the post-merger integration side, that you have a strong playbook and an ability to articulate how are you going to actually execute the deal? How are you going to design it? How are you going to actually deliver actually the value?

So all these best practices become even more important because investors are going to be skeptical, "Can you actually deliver on the value? Does this really make sense?" And you want to be on your game and as sharp as you can on the strategy, on the value creation thesis and on the delivery of that value.

The second part is also technology is changing in the M&A world. AI, in particular, is bringing new capabilities and tools that I think we're just starting to see the impact of that in M&A. On the due diligence side, we actually have developed an AI agent that is able to evaluate for a specific company what are potential adjacent spaces that makes sense to do deals in and evaluate right now, first more on a qualitative perspective, what are potential targets and why they make sense? How would they add value and what are the risks associated with them?

We recently shared this tool with a few of our clients. On the one hand, they said, "Yep, these three, four areas I knew about and I knew the targets and this confirms that. So I didn't learn anything new. But they're right, and these other two or three areas, I had not thought about and I had not thought about the targets. And they're actually quite interesting."

So it doesn't necessarily give you the full answer, but it opens up opportunities. And the most interesting part is that, that type of work, it would've taken us maybe two or three weeks to do it with a team. Now with this agent, we could do it in a matter of minutes, loading up the right information and have a great starting place for a deeper set of discussions.

We're also evaluating a tool to do some of the rigor-testing activities that we do during the post-merger integration side. That also would've taken us, not one, but several teams to do. And now I think the tool, actually it's in development, but I feel we've tested some initial elements and I think it's going to also accelerate some of the activities that we used to do. So I think we're seeing the beginning of this.

I think there's going to be a lot more happening and it's going to replace some of the activities that humans used to do. But I think I'm of the belief that it's going to be complementary and it's going to allow us to save time and effort to spend time more asking the tough questions, engaging on the right type of answers and probing deeper so we can actually develop better solutions and better answers.

GEORGIE FROST: Sticking with AI, how do you see that evolving? What guardrails should we put in place in terms of regulations, and how should companies be approaching that?

DANIEL FRIEDMAN: Clearly, confidentiality and making sure that the data is completely safe and allowed to be used I think is super important. So I think keeping a close eye on that. The clients I work with, I think the legal team is very involved but making sure all that is well following the regulations, and that's ever evolving given it's so new. So keeping track of that and applying it is very important.



Second, AI still tends to hallucinate from time to time, so it absolutely requires human quality control to make sure the answers make sense and that it's not coming up with some crazy stuff as it gets developed. So I think just the quality control aspect and expertise that comes, looking at the results and testing it and kicking the tires on it is absolutely critical as well.

GEORGIE FROST: We know most deals fail to create value, yet some consistently create big returns. So what are the winners doing right and how can we apply that to this new environment we're in?

DANIEL FRIEDMAN: I think it's even more important in this new environment. And I think what the winners do using M&A successfully is first having this always-on M&A capability. Being able to actually think about what's your strategy, what's your strategy for M&A, evaluating your portfolio on an ongoing basis, developing a strong playbook for M&A and for post-merger integration, making sure there's a very strong strategy and value thesis of how a deal makes sense and why you are the best owner.

What are the synergies, what's the state of the market, how it could evolve, rigor testing that through scenarios, engaging with the market, engaging with targets, making sure the line management really owns the M&A strategy. And then having a very strong post-merger integration design and execution.

There's no value until you've captured the value. And so we have very detailed understanding of what are the imperatives for that from how do you organize for design? How do you actually capture the value, whether it's on the cost or the revenue side? Keep track of customers and the market while you're doing that. And very importantly, also the organizational aspect.

What's the operating model? How the two companies will fit together if it's on the buy side, on the PMI side, what's the culture? How will you manage change? How do you design the organization? All these elements, companies that succeed do a good job across the board from end to end, from the M&A strategy, all the way to full execution of value creation.

GEORGIE FROST: So Danny, we've covered the "so what," what about the "now what?" The next steps leaders should be taking right now.

DANIEL FRIEDMAN: I would summarize it in four main steps. Number one, reviewing your portfolio and evaluating what are your businesses, what are your strengths? What are the implications of that? And then, on the buy side, are there particular areas that you are the best to drive a value creation, whether it's a consolidation play on a particular area, or it's changing the market like the Union Pacific-Norfolk deal that is creating the first cross-continental US delivery that could create a ton of value.

Or whether it's on the growth side. We've seen a lot of deals in the software and semiconductor space where you can actually buy new technology, access to new capabilities where you can cross-sell that into the market.

Number two is building strength in both M&A and PMI and having a strong team, a strong playbook, and where needed, using outside help to actually accelerate and act like a serial acquirer. Number three, financial capability. Do you have the right financial structure? Can you actually do these deals we're talking about? How do you actually increase your capability?

And then number four, making sure there's strong alignment with your board and with your leadership team around how M&A will add value, and making sure you keep them on board, informed and engaged, so you can act quickly as you pursue those opportunities.

GEORGIE FROST: Danny, thank you so much, and to you for listening. You can check out BCG's annual M&A report and the monthly M&A sentiment index that Daniel mentioned by following the link in our show notes or heading to [bcg.com](https://www.bcg.com).