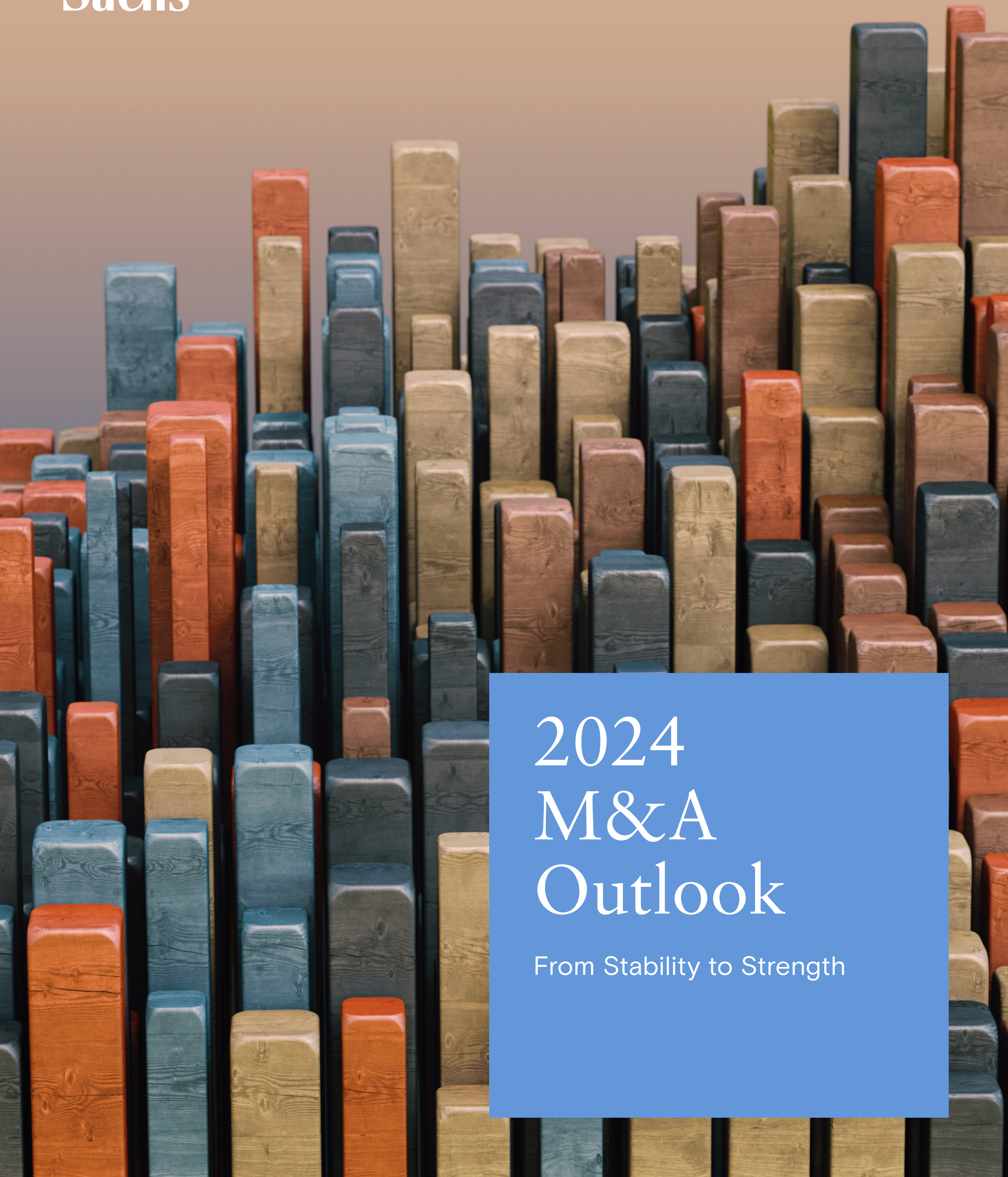
Goldman Sachs



2024 M&A Outlook

From Stability to Strength

“CEOs and corporate boards do not need to have a very clear picture of what the future will look like, but they need a degree of stability. I’m reasonably bullish that this will return, but obviously it will be in fits and starts.”

Stephan Feldgoise
Co-Head of Global M&A

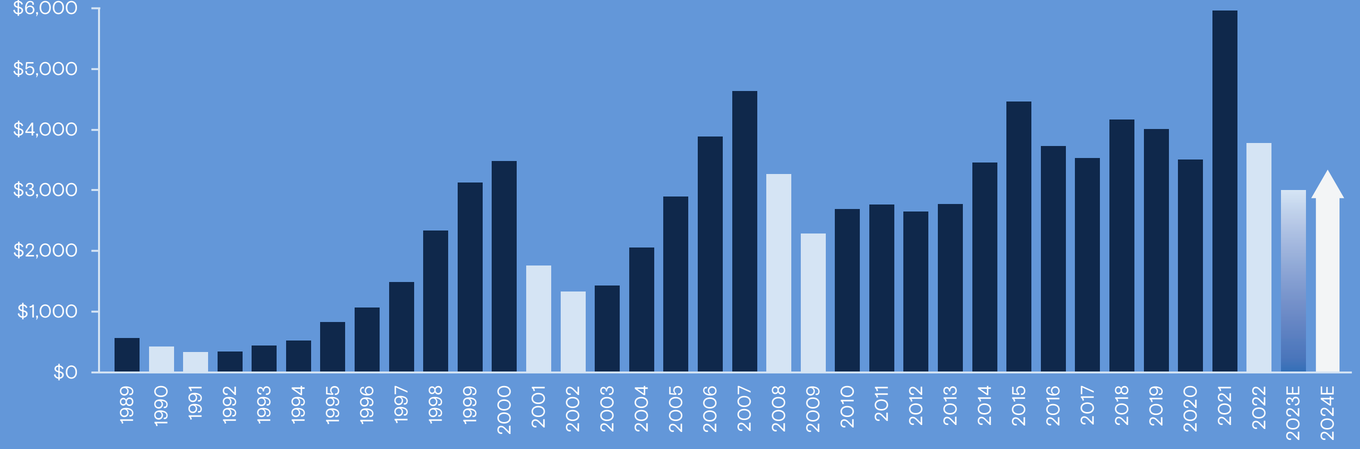
Pressure on financial markets, shaky macroeconomic confidence, and rising interest rates all contributed to a subdued start to dealmaking in 2023 — although a welcome pickup in both announcements and new dialogue near the end of Q1 marked a notable shift toward recovery. Although the total M&A dollar volume of $3T is down ~20% YoY, activity is in line with pre-2018 median levels, and average monthly volumes progressively improved throughout the year. Overall, stabilization of global activity is coming into view as the macroeconomic backdrop steadies and financing markets continue to reopen.

History will show that M&A markets undulate, but pullbacks tend to be reasonably short in duration. Even now, volumes have normalized, and dialogue with corporate clients has been increasing as conditions improve. As we close the year, M&A volumes reflect the strongest level of activity we’ve experienced since the beginning of the current rate-hiking cycle — and while sponsor-backed activity has been notably muted, we are cautiously optimistic that we’ll see a rebalancing within this space in the year ahead.

As we look toward 2024, several key themes that have shaped the past several quarters remain key drivers of activity going forward:

- Normalization of large-scale M&A from a sputtering start (no $10B+ deals announced in the first five weeks of the year, but volumes are now on par with longer-term averages)
- Significant sector shift to the “older economy” — natural resources led the way with 25% of all activity
- Significant shift from sponsors to corporate buyers (although a notable bright spot in take-private activity)
- Continued momentum of corporate simplification
- Expansion of activist activity and levers
- Rebuilding of cross-border activity pipeline

Announced M&A Volumes Over the Last 30+ Years ($ Billions)



Source: LSEG Data & Analytics (Refinitiv) and Dealogic. 2023 annualized based on volume as of Nov 2023; dollars shown in billions

Resilience of the Older Economy

Following a post-COVID growth cycle, we've observed a meaningful sector shift toward older economy sectors such as industrials, materials, power, and natural resources. Natural resources companies were particularly active across all verticals this year, representing 25% of all volumes, an increase of 6% vs. recent averages.

"As we think about where we sit in the overall cycle for natural resources M&A, all the ingredients remain in place for continued momentum across geographies, subsectors, and size ranges."

Brian Haufrect
Co-Head of Americas M&A

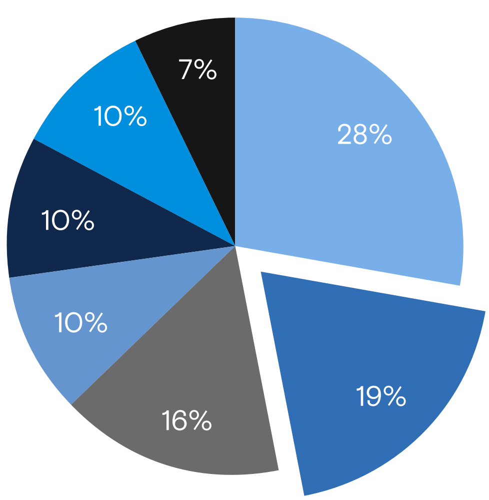
Sector Spotlight: A Focus on Natural Resources

There was no shortage of dealmaking highlights across the sector — including the year's two largest transactions — but most remarkable was the steady stream of announcements, underscoring the breadth and depth across all subsectors and growth themes.

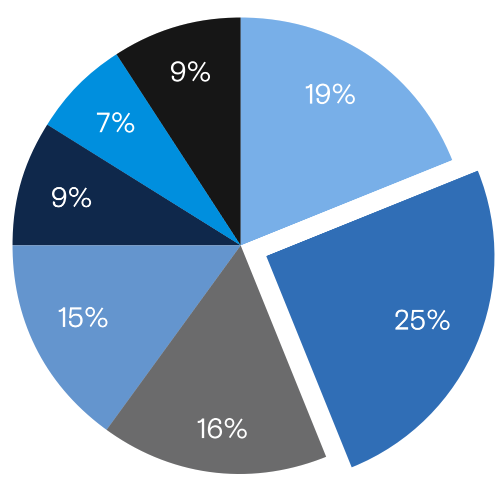
Natural resources companies in aggregate entered the year with healthy balance sheets and strong cash flow outlooks. While many sectors struggled with access to the financing markets and/or dislocated valuations, natural resources companies were well positioned to access a yearlong open M&A window.

More broadly, a focus on the future of energy and natural resources has led to a reevaluation and refocusing of portfolios through divestitures and structured separations, as well as investment through CapEx and M&A in transition and technology. Our economists expect $3T of renewable energy investment over the next decade. M&A will play a critical role in positioning companies as the industry continues to evolve.

2022 Global Contribution



2023 Global Contribution



Technology, Media & Telecom | Natural Resources | Industrials | Healthcare | Financial Institutions | Real Estate | Consumer

Source: Goldman Sachs Global Investment Research and Dealogic as of 30 Nov 2023

Growth Through Simplification

Portfolio complexity, a rising cost of capital, and external pressures have catalyzed the post-pandemic theme of strategic and financial restructuring through corporate separations — aided in large part by a changing macroeconomic backdrop that has upended the balance between globalization and regionalization. The strategic, financial, operational, and investor benefits to these separations are numerous. In our 2023 report, *Strategies for Successful Corporate Separations*, we outlined key guidelines to optimize long-term value creation as diversification increasingly leads to complications:

- **Reimagining NewCo and RemainCo:** separations provide a catalyst for companies to transform by reprioritizing their strategies, with one company typically focusing on growth and the other focusing on margin improvement.
- **Deriving benefit from management focus:** separations provide an opportunity for leadership teams to focus on specific business priorities aligned with independent company strategies.
- **Tailoring capital priorities:** separations allow companies to redesign their capital structure based on their needs, with one company typically focusing on return of capital while the other focuses on investment into organic and inorganic growth opportunities, including M&A.
- **Managing the process:** separations can be time-consuming and costly but can be justified if the separation has long-term value creation potential.
- **Communicating strategically:** separations impact different stakeholders to varying degrees, and frequent and transparent communication is important to manage their priorities and achieve strategic clarity.

Separations have been a constant in US M&A throughout the past two decades, but this year saw a notable bloom in global activity. Year-to-date, 22 global separations >$500MM were announced and 23 completed. Recent activity continues to be driven by a relentless focus on both operational excellence and capital efficiency.

2020 marked the onset of the pandemic and ensuing market uncertainty, coupled with challenging operating and competitive conditions, forcing companies to rethink their priorities.

2/3 of the S&P 500 today have three or more large segments with revenue >$500MM, driven in part by a decade of merger activity and portfolio diversification born out of a "bigger is better" philosophy following the financial crisis. As a result, businesses have grown increasingly complex.

50+ separations were announced over the past two years, of which healthcare and industrial companies represented 45%.

On average, corporate separations lead to:

6% excess blended shareholder return over two years post close.

67% of RemainCos experiencing a reduction of SG&A cost over two years post separation.

4.7% increase in revenue growth for NewCos.

70%+ announcements with a positive market reaction, indicating that markets support corporate separations.

Source: FactSet, DealPoint, Dealogic, Capital IQ, and company public filings. Note: Excess total shareholder returns defined as the change in the company's equity value plus dividends paid out over the same period, starting with the day before announcement for ParentCo and the two years following close for RemainCo and NewCo on a blended basis; companies are indexed against specific S&P sector benchmarks.

Expansion of Activist Levers

Despite macro headwinds and a challenging execution environment earlier in the year, activists continue to wage both public and private campaigns — and in 2023, the universe of activists noticeably expanded. The list of new, dedicated activist funds spun out of larger, established funds has grown; concurrently, institutional investors have become more comfortable using activist-oriented tactics, including publicly expressing their discontent to push for alternate outcomes.

The increased focus on large-cap companies observed in 2022 persisted into 2023, particularly across Europe. While small- and mid-cap companies continue to constitute the majority of activist targets, large-cap companies now represent 30—35% of campaigns, compared to 20% just two years ago.

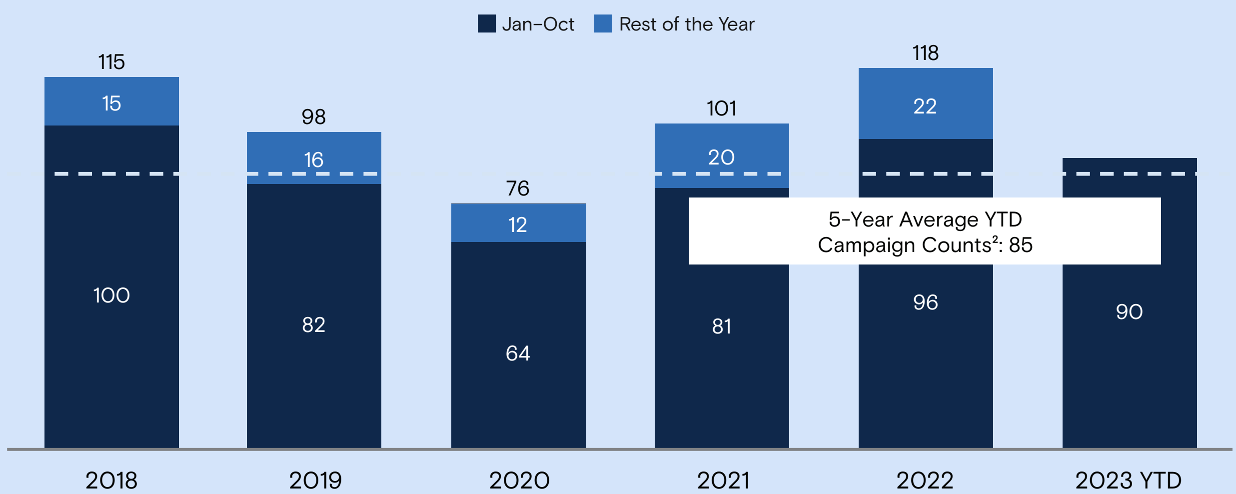
The slower M&A environment and the macroeconomic volatility of 2023 have led activists to expand their arsenal of tools. Activist campaigns have historically revolved around board representation, capital allocation, and business portfolio reviews. Increasingly, operational improvements, and even outright calls for management team changes, have taken center stage. M&A activism has been more muted, but as green shoots in M&A gradually reappear, we expect activists to dial up their demands for strategic reviews.

> Against the backdrop of a more optimistic macroeconomic outlook, activists are increasingly bullish on their ability to generate alpha. We are expecting the current elevated levels of activism campaigns, especially directed at large-cap corporates, to continue into 2024.

Avinash Mehrotra
Co-Head of Americas M&A
Global Head of Activism, Shareholder Advisory & Takeover Defense Practices

Annual Activist Campaigns

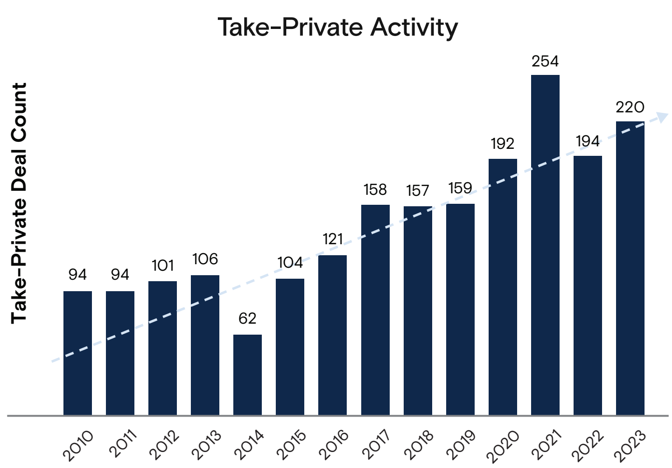
2023 YTD Levels Above 5-Year Average[1]



Source: FactSet, public filings, 2023 YTD as of 31 Oct 2023. Note: [1] Includes campaigns to maximize shareholder value, enhance corporate governance, secure board representation or control, and remove directors or officers at US companies with market caps >$500mm. [2] Reflects 2018-2022 averages. Dealogic as of 30 Nov 2023

The Evolution of the Take-Private Era

While sponsor M&A was relatively muted this year (28% of total activity down from nearly 40% in 2022), take-private transactions continued at a near-record pace. While going private is a natural result of declining market valuations, take-private motivations in 2023 were driven by multiple factors: market resetting and trends in the target cost of capital, primarily driven by risk-free rates in an inflationary environment, made buyout offers more attractive. Recent IPO and SPAC issuers trading below deal price also created pockets of opportunity and heightened activist activity. Macro and management uncertainty led to a willingness from boards to explore strategic alternatives.



Source: Dealogic as of 30 Nov 2023

What Drivers Will Fuel Sponsor M&A in 2024?

Take-privates aside, rising borrowing costs, macro and operational risk, and the growth of the secondaries market all contributed to a sponsor slowdown in 2023 that has created the largest vacuum for improved sentiment next year. As global M&A volumes stabilize, the “higher for longer” environment normalizes, and the institutional leveraged loan market becomes increasingly supportive of M&A financing, the environment is primed for sponsor activity to gain steam.

DPI (distributions to paid-in capital), or the total capital that a sponsor has returned to its investors in a given fund, has been very low over the last four vintage years. Investors have been experiencing net drawdowns since 2018 with limited capital return from sponsors. Investors will continue to leverage DPI as a key metric for evaluating capital deployment opportunities, creating a persistent headwind for fundraising opportunities.

As a result, we expect to see continued pressure on sponsors to monetize their portfolio companies through full sales or partial sales, dividend recaps, and continuation vehicles. A growing dry powder surplus has also created pressure to deploy capital as interest rates hold steady, and the gradual reopening of the IPO market is fueling momentum for sponsors to recognize and act on opportunities. We anticipate this space, given both persistent headwinds and tailwinds, will be a key area of focus in 2024.

Key Themes for Strategic M&A in 2024:

Elevated focus on M&A as a strategic lever, particularly from corporate acquirers

Amplified activity across growth sectors (e.g., technology, healthcare)

Continued simplification of business models

Increased activity outside of the US and reemergence of cross-border activity

Return of sponsor dealmaking, including on the sell-side

Growth of AI-driven M&A (currently confined primarily to technology sector) across industries

Continued volume surge in resources, energy transition, and infrastructure

Looking ahead with cautious optimism, 2024 will mark a shift toward the next M&A upcycle.

“I think there is great consensus around what the macro outlook will be next year, with inflation coming down and rates normalizing in the second half of next year...and I think that gives CEOs a little more confidence with which to plan their next moves.”

Mark Sorrell
Co-Head of Global M&A

Global M&A Leadership

Stephan Feldgoise
Co-Head of Global M&A

Brian Haufrect
Co-Head of Americas M&A

Andre Kelleners
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