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## Market Intelligence

# M&A 2023

Global interview panel led by Simpson Thacher & Bartlett LLP

Lexology GTDT Market Intelligence provides a unique perspective on evolving legal and regulatory landscapes.

Led by Simpson Thacher & Bartlett LLP, this *M&A* volume features discussion and analysis of emerging trends and hot topics within key jurisdictions worldwide.

- Keynote Deals
- Sector Focus
- M&A Activity Levels
- 2024 Outlook

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# Global overview

Eric Swedenburg is a partner at Simpson Thacher & Bartlett LLP, where he is the global head of the firm's mergers and acquisitions practice and a member of the executive committee. Eric focuses on representing companies in a wide range of mergers, acquisitions and divestitures, spin-offs, joint ventures and other significant corporate transactions. He also regularly counsels clients on shareholder activism, corporate governance and general corporate and securities law matters. In addition to his work with public companies and special committees of boards of directors, Eric has extensive experience in advising non-public corporations, private equity firms and financial advisers in both US domestic and cross-border M&A transactions across a number of industry verticals. Some of his recent transactions have included representing SiriusXM in its US\$3.5 billion acquisition of Pandora, Mars in its strategic partnership with KIND, Dover in the spin-off of Apergy, Genesee & Wyoming in its US\$8.4 billion sale to affiliates of Brookfield Infrastructure and GIC, and The Mosaic Company in its US\$2.5 billion acquisition of Vale Fertilizantes. Other clients of his have included Ingersoll Rand, La Quinta, McKesson and Vodafone Group. Among other recognitions of his work, in 2009, *The American Lawyer* named him 'Dealmaker of the Year.' He is a frequent commentator on M&A issues.



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## Current overview

Following the record year of 2021, global M&A activity in 2022 fell back down to Earth and then in the first half of 2023, continued to fall. Transactions amounting to US\$3.6 trillion were announced in 2022, a 37 per cent decline from the US\$5.9 trillion of transactions announced in 2021. Nearly 55,000 deals were announced in 2022, down 17 per cent from the over 63,000 announced in 2021. The story of 2022, however, is not complete without noting the large shift in activity levels from the first half of 2022 as compared to the second half of the year. In the first two quarters of 2022, global M&A activity reached over US\$1 trillion of transactions announced in each quarter – marking a new record of eight consecutive quarters with over US\$1 trillion of transactions announced. This consecutive win streak then came to an abrupt end, as the second half of 2022 saw global M&A activity fall precipitously. From the first half of 2022 to the second half of 2022, global M&A activity fell from US\$2.2 trillion to US\$1.4 trillion of transactions announced, a decline of 33 per cent. This 33 per cent decline is the largest decline between the first and second half of a year since records began in 1980.

Unfortunately, the first half of 2023 did not see a rebound in global M&A activity and the softness in activity levels that began in the second half of 2022 continued into the first six months of 2023. Global M&A activity totalled US\$1.3 trillion during the first half of 2023, a decrease of 37 per cent compared to the first half of 2022. This was the slowest first half of a year for global M&A activity since 2020, when the world was first grappling with the onset of the covid-19 pandemic. Excluding the pandemic year of 2020, the first half of 2023 was the slowest start to a year since 2013. Nearly 27,300 deals were announced during the first half of 2023, a decrease of 9 per cent compared to the first half of 2022 and a three-year low. There continues to be a host of factors contributing to the suppression of global M&A activity, including rising interest rates, persistent



inflation concerns, recessionary fears, volatility in the debt and equity markets, geopolitical uncertainty and a more challenging regulatory environment for deal making.

### First half of 2023 – a closer look

The decline in global M&A activity was felt throughout the M&A ecosystem. Starting with private equity, an increasingly substantial driver of global M&A activity, the rising interest rate environment meaningfully impacted both the cost and availability of acquisition financing, and the result was that private equity M&A activity was down 49 per cent in the first half of 2023 as compared to 2022. Another example of the softness in the overall M&A market is the decline in blockbuster deals. The number of deals having a value over US\$10 billion dropped to 14 in the first half of 2023, compared to 26 in the first half of 2022 and nine in the second half of 2022. Additionally,



the total value of deals over US\$10 billion was US\$259.2 billion in the first half of 2023, the lowest since 2017.

Viewing the first half of 2023 global M&A activity through regional, industry and other lenses by and large tells the same story of an overall reduction in activity year-over-year.

By region, the United States continued to lead the global M&A market in the first half of 2023 with US\$566.4 billion in activity, a decline of 40 per cent from the first half of 2022. Despite this decline in activity, the United States accounted for 43 per cent of the global value, in line with 2022 levels, as other regions tended to see similar or even more substantial activity declines. The European M&A market hit a 10-year low in the first half of 2023, down 49 per cent from the first half of 2022, with a total deal value of US\$262.8 billion. M&A activity in the Asia-Pacific region also declined in deal value by 35 per cent compared to the first half of 2022, falling to US\$294.1 billion from US\$488.3 billion. Overall cross-border M&A deals decreased by 25 per cent in the first half of 2023 with US\$493.3 billion of total deal activity. This was the slowest first half for cross-border M&A since 2013.

By sector, healthcare, energy and power and technology evidenced the most activity, although with the exception of healthcare, these sectors showed similar year-over-year trends as noted above. Healthcare was a bright spot of sorts and had a relatively strong first half of 2023, up 43 per cent from the first half of 2022. Energy and power, while still a leading sector, was down 23 per cent from the first half of 2022. Technology, which had consistently been a growing share of global M&A activity, fell dramatically by 66 per cent in the first half of 2023 compared to the first half of 2022. This decline in technology volume, in part is explained by a lack of blockbuster deals in the sector that were present in the first half of 2022, for example, Microsoft's acquisition of Activision and Elon Musk's purchase of Twitter, as well as a tougher regulatory and financial environment as technology firms looked to rein in pandemic-era spending.

## Looking forward

Looking at the entire year, 2022 in many ways was a return to normalcy in the context of overall deal volume after the record breaking year of 2021. However, the latter half of 2022 and into 2023 has seen a decline steeper than most market-watchers predicted, particularly in light of the lofty peaks of 2021. As discussed, the headwinds that were dampening activity at the end of 2022, continued and, in some cases, grew even stronger into 2023. The good news is that there are reasons to believe that activity will start to pick back up again later in 2023 and into 2024, absent a macro-level exogenous event. The market volatility has declined, fears of a recession have abated somewhat and valuation disconnects between potential buyers and sellers are narrowing. In addition there are reasons to believe we may be approaching the end of the cycle of the rapid interest hikes that were a large part of the pullback in M&A activity and, relatedly, there are indications that inflation pressures are starting to ease. These are the types of factors that should contribute to more confidence with companies and private equity sponsors, and more confidence should lead to a pick-up in M&A, as strategic buyers still see value in M&A to grow their business, and financial buyers are sitting on a record breaking US\$2.5 trillion in dry powder, waiting for right market conditions and opportunities.

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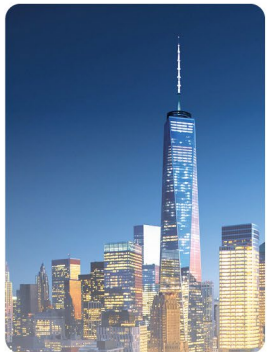
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