Goldman Sachs Exchanges
The outlook for global deal-making

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Allison Nathan: How will geopolitics, tariffs and generative AI affect the global deal making environment in 2025? I'm Allison Nathan and this is Goldman Sachs Exchanges. To help explain the state of deals and the road ahead, I'm joined again by Stephan Feldgoise and Mark Sorrell, the co-heads of the Global Mergers and Acquisitions business in Goldman Sachs' Global Banking & Markets division. Stephan is joining me here in the New York studio. And Mark is joining us remotely from London. Mark, Stephan, welcome back to the program. Pleasure to be sitting down with both of you again.

Stephan Feldgoise: Great to be back. Thank you.

Mark Sorrell: Thanks, Allison.

Allison Nathan: Stephan, when we sat down a year ago, the M&A market was beginning to show signs of life. And I say that pretty hesitantly because activity was still pretty subdued. But this year, inflation has continued to moderate. We have seen the long-anticipated rate cutting cycle of the Fed finally begin. And, of course, the S&P 500 is making new highs, I would say almost daily making new highs. So, putting all of that together, how has that helped spur deal making activity this year? What have you observed in terms of how deal making activity has evolved over the course of 2024?

Stephan Feldgoise: It's interesting. If you roll back to when we were together a year ago, we had a view that 2024 was going to be somewhere in the range of a plus 10 percent year relative to 2023. And in fact, that's largely what it's been. But it certainly has been what I'll call is a gradual crescendo of factors that have really driven what I'll call a plus 10 percent year. And, oh, by the way as we look to '25, which we'll talk about, we're balanced and have a similar view in terms of '25 over '24. But you saw strategic activity, again, the imperative coming out of

COVID to reposition remained as interest rates came down, as pressure on financial sponsors to return liquidity to their LPs, as strategics began and continued to think about the positioning, both globally and domestically that they wanted to do, that pressure added to, in addition to cuts in interest rates, which obviously helps the cost of financing for both sponsor and strategics, led to that plus 10 percent.

And we certainly hit five-year, ten-year lows in 2023. And so, we were coming off a relatively low bottom. But you saw that pick up. And you particularly saw activity in Europe. Europe had a very strong relative year to what you saw in 2023.

So, when you put all of that together, it was a balanced 2024. And there were certainly headwinds. Obviously, regulatory was a headwind. Geopolitics was a headwind. Obviously there's volatility around the number of elections, not just in the United States, but around the world. And so, that's why we maintained balance. There were factors pushing it stronger. And there were factors, as I just mentioned, that caused us to temper our expectations.

Allison Nathan: Let's unpack some of those factors.

Because as you mentioned, the rate environment has been a big driver of deal activity. The Fed has started cutting rates. But rates themselves, if you look at the ten year, it's been pretty resilient. We're back up, well above 4 percent. So, when you think about how corporates are viewing the rate environment today, is it better than it was in the last year?

Stephan Feldgoise: It's modestly better. But we have to remember the world got used to free money for well over a decade since the financial crisis. And if you look at the level of absolute rates now, it's still relatively low if you look over 30 years or 40 years or 50 years.

Allison Nathan: Right.

Stephan Feldgoise: But that takes some psychological adjustment because people were used to, particularly financial sponsors, who were the biggest beneficiaries of effectively an extraordinarily low cost of capital that we saw after the financial crisis.

So, as people have adjusted their models and have understood that this is the, quote, "new normal," you've

seen people get used to it. Much like you see in the M&A market, there's a period of psychological adjustment to both valuations, as well as to interest rates which impacts valuations. And so, you've seen that normalization happen where people now look forward as this is a new normal where capital is not going to be free.

Allison Nathan: And the other big driver when I think back to our conversation last year was the uncertainty. We did have an impending US election and other elections, as you rightly pointed out, that could lead to material policy changes. If we think about the various policy shifts that the market is focusing on right now when it comes to tariffs, when it comes to geopolitical risks, when it comes to perhaps a little less regulatory scrutiny, how do you think that's all going to come together to impact deal making activity this year?

Stephan Feldgoise: So, we think in decades in our business. And by the way, corporates, and you've seen it largely in the markets, when people were surprised that the markets weren't reacting or overreacting to any specific risk or short-term issue that came up, boards think in decades. And so, every administration is impactful. And of course,

you have to modulate and either accentuate or modulate things based on what policy is going to be in that period.

But if you think about strategic activity in M&A, you're not making one year or four-year decisions. You're making 40 or 50- or 100-year decisions. And so, you modulate what you're doing. But you look out and think long term. And so, you look at any administration or any economic cycle or any interest rate cycle or any tariff cycle or any geopolitical issue, obviously some of them are existential. And of course, tragic. You have to think in decades and where is the world going? Where is your business going? And where do you want to be in 50 years? Because these are long cycle businesses. Some of them have long cycle investments. We call it putting steel in the ground. But businesses are generational, multi decade, and people are thinking that way.

And that's why we remain bullish on M&A regardless of the geopolitical or regulatory or electoral situations. But they do have an impact on getting things done in that shorter period of time. But less of an impact in terms of the overall strategic long-term activity.

Allison Nathan: Where are we expecting to see deal activity most concentrated?

Stephan Feldgoise: I'll take it a little bit by industry and then a little bit by geography. We saw some incredible growth acquisitions over the last, call it, year and a half. You saw it in energy where the large-cap energy companies wanted to accumulate molecules and inventory. So, you saw the largest energy consolidation that we had seen in history happen in end of 2023 into 2024.

You saw it in healthcare. Extraordinarily well capitalized, large-cap pharma buying products where they didn't have particular innovation or strength, whether that be MD-RNA. Whether that be weight loss. So, you saw huge acquisitions of not necessarily startups, but smaller companies that had the technology. Large companies had the distribution and manufacturing, and they wanted to acquire the technology to grow.

So, as we look forward, where are we going to see companies looking for that growth? We're seeing quite a bit of activity in consumer where folks are looking to add brands, add businesses, many of which have been reported

in the press. You’re going to continue to see it in healthcare. You’re going to see it also in technology where large technology companies, much like healthcare saw certain areas, technology companies for decades have been looking at smaller companies with great ideas and great technology or great software and adding that to their portfolios.

The key theme, and I was talking to a CEO about this last night, that I think has become relatively universally accepted for different reasons is that scale is increasingly more important. Scale across geography for diversification of supply chains and manufacturing. Scale across products for being able to understand where growth might be and being able to capture those market opportunities. Scale for financing and balance sheet heft in stormy financing or capital markets. All of those have really shown boards and shareholders the benefits of scale. And again, scale as I said, has many different areas. And therefore, it’s not just product growth and top-line revenue. But it’s growth of scale, scope, and revenue.

Allison Nathan: Interesting. Mark, do you have further comments on that though when we think, again,

geographically where deals could be centered in 2025?

Mark Sorrell: Yeah. So, I think, Allison, what we've seen in Europe is that 2023 was a very muted year for deal activity because of the macro in Europe. What we've seen in '24 in Europe is a very sharp acceleration of activity. Within the space of a few months, we've gone to a much more normal rate of deal making in Europe. And that has taken place in a very concentrated period of time. And we've seen in spaces like, financial institutions is a good example, a wave of transactions that are in some cases domestic, in some cases cross border within Europe type consolidation transactions.

So, Europe, I would say, has been characterized by a very rapid normalization of activity. The other thing to remember about Europe is weighted more towards private equity activity on average than the US. And so, what the other thing we've seen in Europe this year is a real acceleration in private equity deployment, particularly in public to private. So, we've seen a wave of large public to privates.

I think when you go to Asia, it's a more specific regional

discussion. I'd say we've seen a recovery in Australian activity, a bit similar to what we've seen in Europe. The other bright spots in Asia are India, which remains very strategic for many of our clients, both corporate and private equity, and Japan as well where we've seen a real acceleration of some private equity, but principally corporate-led large activity.

The place that activity remains more muted and has remained more muted for obvious reasons is activity around China. But with that exception, my own view is that Asia is trending in the direction Europe has been trending. It's just running a few months behind in terms of the general trajectory.

And I think that one of the questions and maybe we'll come back to this later is that the other thing we've seen this year is our clients start to look again at cross border, just talk about cross regional or cross continent activity. We've seen that start to tick up.

So, a good example of that is we've seen three or four quite large corporate deals done by European corporates into the US in various industries. That's really European corporates

looking for growth by making acquisitions in the US. I think we will also see some US corporates starting to look in Europe as well in the coming months. And so, that is also a positive sign in terms of some of the things I think we're likely to see in 2025.

Stephan Feldgoise: And I would add to that, there's no question that the United States has been a net beneficiary of a number of factors. Perceived stability. Energy supply. Onshoring of manufacturing and investment from the government in certain sectors. And so, you've seen an incredible focus on, as Mark mentioned, some companies looking to buy, quote/unquote, "growth" in the United States. But also, just economic activity in the United States has net benefited from a lot of the global factors.

Allison Nathan: Right. And for the most part, we expect that to continue. It seems that when you look across forecasts, US economic activity will outpace, relative to normal, other regions. If we dig into a little bit the private equity sponsors, which both of you have mentioned, ultimately as we discussed, that's been a bit of a drag in recent years. We've begun to see places where they've gotten more involved. But there's still, from my

understanding, a lot of cash waiting to be deployed. What will it take to continue to bring those sponsors back into the market?

Stephan Feldgoise: A couple factors just to give some scale and scope. Private equity had historically at its peak been close to 40 percent of the M&A market. It's dipped down low thirties into the twenties over the last couple of years. That being said, it's still a big part of the market. What's restrained it? Obviously, some of the things we talked about. The ability to sell businesses, monetize businesses, and therefore return capital has been very challenged. The other thing that is essential for an active M&A market is actually an active IPO market. For sponsors to feel the confidence to put their assets into the market, the dual track, as we call it, which is equally pursuing an IPO at the same time as M&A is a very powerful tool. The IPO had not been readily available for them. It's becoming much more readily available. And so, that, we think, will drive the exploration of monetizations to a greater degree. Point one.

The other point though is that sponsors now sit on a number of portfolio companies at 10 billion or well over 10

billion. Selling those businesses is hard because it's just obviously given the size a relatively narrow buyer universe. The IPO may be the only exit for some of those businesses. But that will really spur the engine if you start seeing a number of these large portfolio companies either going public or getting sold.

The other thing has just been also a mindset of are sellers willing to transact? And that mindset shift that I mentioned is happening. And the number of public to privates has actually been quite substantial. And so, that really hasn't slowed down, it's just been smaller deals. But the pressure on private equity to return capital was there. It is growing. And so, you're going to see that pressure compound now with more readily available exit options that we think will start driving the private equity activity to a greater degree.

Mark Sorrell: Just to add one point or emphasize one point Stephan made. If you actually look at private equity activity in 2024, the rate of deployment of capital increased quite rapidly. And if you remove 2021, which was an extraordinary year for deployment, the rate of deployment is running relatively close to a kind of long-term average type levels. And if you look at the disclosure of certain large

private equity firms, there's a good number of firms saying their rate of deployment is on plan or even is slightly ahead of plan versus where they were at the beginning of the year. And a lot of that, as Stephan said, has been public to privates.

The place where private equity in a sense needs to be a catch up or activity is running well below historical levels is on the exit side. And so, that is the place I think in 2025 where we're watching very closely as valuation gaps close, bid/ask spreads close, and the IPO market improves, do we see the rate of exit improve? Because that is then key to unlocking further activity.

But I would emphasize the big difference from this time last year is how quickly the rate of deployment has improved, both by the way in traditional private equity, and infrastructure. If you take infrastructure, digital infrastructure is a great example of where there's been incredibly active deployment of capital around the world.

Allison Nathan: And as you just said, that lack of exits comes down to valuation. How much confidence do you have that valuation gap will close?

Stephan Feldgoise: Well, it's valuation and having an active IPO market where you can actually get public without such a dramatic discount that it doesn't make sense to do it. And so, that's why we pair together the IPO market with the M&A market.

For the sponsors, that's been a lot of the challenge. So, if they entered business 2019, 2020, 2021, valuations were quite robust and that's the challenge. But if you're a private equity sponsor, and by the way as you noted, markets have continued to go up in the last two years, if you entered at a high multiple, they're very focused on, obviously, generating carry and returns. The benefit of holding is that you hold an option. And they had wanted to preserve it and extend that option. How can they extend options? Either through refinancings or continuation vehicles, all of which you've seen the last couple years, because it preserves that optionality that they get the valuation that they're hoping for.

That being said, as time goes on, IRRs of returns suffer from a longer duration. So, that pressure mounts as well in addition to the desire for the LPs to have capital. So, when

does that cross? Varies very much by each company. But there's no question that the pressure has been increasing through 2024 and will continue to increase in 2025. Which is why, again, part of our balanced view on pick up is not that you're going to see a 40 percent pick up in the M&A market or in private equity monetizations, but that you will see a reasonable 10 to 15 percent pick up. And that's why we modulate the exuberance that you hear from some places in the market about the M&A market in 2025.

Allison Nathan: It's kind of hard for me to believe that we've had this whole conversation and haven't really mentioned generative AI yet, which is such a big theme in the market. So, Stephan, talk to us about how that spending by very large companies, and in general this theme, could be driving deal or impacting deal activity this year.

Stephan Feldgoise: We spend a lot of time in the boardroom talking about the impact of AI and what it's going to do to companies. And the number of industries that it touches is extraordinary. Of course it touches semiconductors. Of course it covers technology. Of course it covers real estate. But of course it covers the power

companies and power generation and where is energy going to come from to support these data centers, which are massive consumers of energy. How do the states and the countries deal with a new load, so to speak, on already strained energy supplies? And then you factor in climate and infrastructure. So, every industry is touched by this.

How will it translate to deal activity is to be seen. Will technology companies integrate into power companies? Will they buy their own real estate and development? How are you thinking about private equity where we've seen, as Mark mentioned, tremendous activity in data centers? Where will they place their bets? Where will infrastructure companies place their bets? And you've seen a number of it, whether it be in data centers themselves. You've seen private equity active in merchant power, which are now some of the sources that are going to be producing power. And you have the hyper scalers who are going to be massive users of power and consumption in the usage of large language models and AI. They're very focused on where they're going to get their power. So, they're looking to secure it.

Now, a lot of that will be contract and partnerships, maybe

M&A. I don't think it's going to be a huge part of the M&A market. But as AI matures and as companies and applications and resources go into it, you will have a maturation of those companies where people will see and be able to value them, which is obviously one of the hardest parts, how do you value AI companies in this market? But there will be a maturation.

So, I think initially it will be investment in capital and partnership. And then it may evolve into more of an M&A market once the companies and the winners become more clear.

Allison Nathan: So, I think maybe just end the discussion with where we might be wrong. I do think that the banking sector has gotten a little bit of flack for kind of continuing to say that M&A is going to pick up. But I think you have a very balanced view, Stephan, of what that might look like for 2025. What are you most focused on that could derail more activity in the coming year?

Stephan Feldgoise: Listen, we've mentioned some of them. Of course, as I mentioned, these are long-cycle decisions. But there certainly could be short-term

disruptions. Look what COVID was. There are always black swan risks that could have strong impacts. You could have a regulatory view somewhere in the world. You could have a geopolitical disturbance or a war, which could of course disrupt things. All of those can certainly disrupt M&A activity in ’25. But again, we’re focused on the longer term.

We are very balanced. I do not sit here and think there’s going to be a rocket ship of M&A activity in 2025. And we advise our clients to be very balanced. And in terms of how they think about these things and think about the risks and when is the right time to do something that they want to do? Lots of things can go wrong. And we are always paranoid managers in the M&A business and think about risks continuously.

That being said, when you look at the underlying forces, they are there, whether it be interest rates. Whether it be the need for growth as Mark said. Whether it be strategic activity around the world. Whether it be scale and the pursuit of scale.

And so, am I highly confident to see recovery to the five year or greater than five-year averages or ten-year averages

over the next number of years? Yes. Can I tell you that's year one or year two? No. But that's why we view 10 percent in 2024, which turned out to be right, and a similar but maybe slightly more in 2025 is certainly my view.

Allison Nathan: Mark, do you have anything to add?

Mark Sorrell: I would just add the way I agree with Stephan is, you know, we've had some headwinds in the last couple of years. Regulatory headwinds. Geopolitical headwinds. Amongst others. And we're in a moment when our clients believe those headwinds are abating or reducing. And that, I think, is what's driving even in the past few weeks more optimism around larger transactions and the ability to move those forward.

I think the risk to the market is that those headwinds don't abate or there are new headwinds or different versions of them. And that, I think, will result in more modest growth in activity. But my personal view is there will still be growth in activity. We're now at the point of it's just a question of the rate of growth or the rate of recovery of the next part of the cycle. I think we still believe that the next 12 months

will be a better environment for particularly large deal making activity than the previous 12 months because of risk appetite, financing environment, regulatory conditions, geopolitical conditions. But I think that is the thing, for me, that is the, if you like, the single greatest thing we're watching, is whether the environment for those larger, which are therefore by definition more risky transactions, whether the conditions continue to improve.

Allison Nathan: Stephan, Mark, thanks so much for joining us.

Stephan Feldgoise: Thanks for having us.

Mark Sorrell: Thanks, Allison.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Wednesday, December 11th, 2024. I'm your host, Allison Nathan. Thank you for listening.

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