ANSARADA

01 FY24

02 Deal

03 Indicators

04 Report

Resilience | Purpose | Transformation

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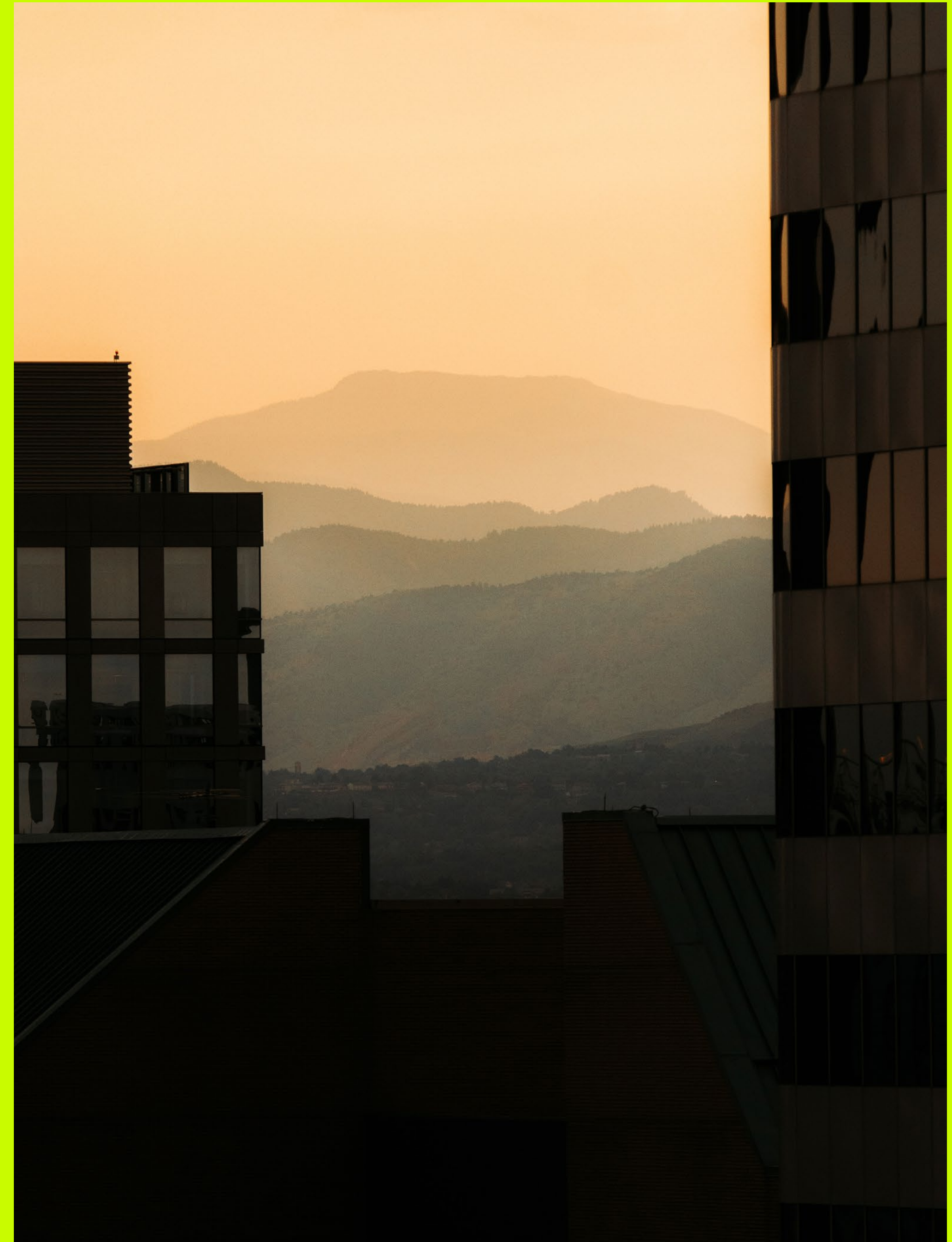


Facing forward: Make sense of an uncertain market

01

With the introduction of our virtual data room software in 2005, Ansarada was born out of a need to simplify the complexity of the deal process. Since then, we've overseen more than 35,000 deals globally and developed our software expertise to include AI tools and digitized workflow technology to govern information and support critical outcomes across the full business lifecycle.

02 Most data reports are written after the fact. They look at closed deal data to tell you what's already happened, giving you a picture of 'what was'. What makes Deal Indicators unique is its ability to show you the trends six to twelve months before the rest of the market, the average deal taking that long to complete.

03 We've taken tens of thousands of raw, anonymized data points from more than 35,000 deals – including those that are active and ongoing – and ordered them to surface emerging trends across deal types and industries.

04 As we embark on our own journey towards sustainability, our introduction of a holistic product suite – which includes Sustainability Management alongside Deals, Governance, Risk & Compliance, and Board Management – has meant the ability of our clients to have all processes in one place, all in order, has never been easier.

We're on the precipice of a profound paradigm shift

New AI technologies have the potential to unlock a wave of opportunities and transform the way companies operate. The widespread transformation connected with the Sustainability Revolution promises to positively impact businesses, on a dramatic scale.

Fast-paced change is to be expected – and is not likely to ever again be as slow it is now. Businesses must act with agility and foresight to capitalize on opportunities. By doing so, they can secure a competitive advantage and contribute to a more sustainable and responsible future.

By ordering more than 400,000 data points from active deals, we can uncover a few powerful truths in Indicators and help you make informed decisions based on real-time data.

Everything we do is designed to get businesses in order and help people be ready for what's next.

With the introduction of our ESG software, we're realizing our vision of helping simplify sustainability, enabling companies to align with leading ESG frameworks, deliver impact through innovation, and ultimately create long lasting value.

I hope you enjoy the report and I look forward to hearing your feedback.

Sam Riley, CEO Ansarada

Building resilience for transformative years ahead

In recent years, dealmakers – and the wider market - have had to adjust to disruption after disruption. From economic slowdowns and soaring inflation to geopolitical issues and supply chain disruption, there's been no shortage of unpredictable events since the COVID pandemic shuttered us all in just a few short years ago. All of this is happening at a time when the climate is also in crisis.

56%

Transformational change is underway – how can we prioritize sustainability initiatives, how can we use energy and resources better, and how can we leverage game-changing AI technologies?

Finding stability remains challenging, and the environment requires constant recalibration to the new normal. This quarter saw a significant increase in bankruptcy and insolvency transactions (56% QoQ), showing the pressure that companies are under.

M&A activity was down by 7% QoQ – a stabilization after the bumper post-COVID years, and not necessarily a cause for concern. M&A and other transactional activity will continue to play a critical role in helping businesses adapt to unpredictable situations and environments that arise.

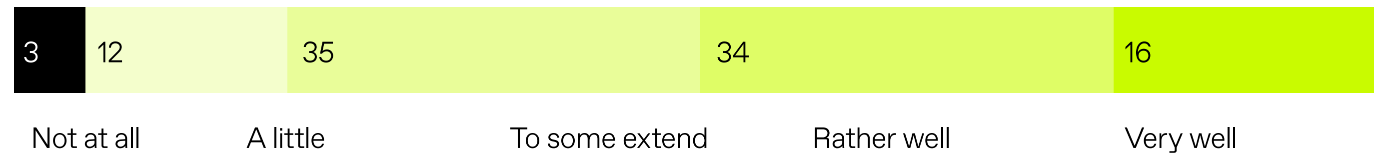
Opportunities for transformation are plentiful, which we can expect to drive deal activity into 2024. But with so many different challenges to address, organizations and leaders must be able to adapt and become more resilient; being prepared for what's coming, being able to recover from tough situations, and coming out even stronger in the end.

Building resilience will be key to weathering ongoing turbulence as volatility continues to be the standard. Agility and adaptability are what will set the winners apart, yet many business leaders remain unprepared to react to future disruption.

Strengthening short-term resilience needs to go hand in hand with a broader mindset shift, including reorienting to put purpose at the heart of business.

Assessing ESG impacts in deals is no longer a nice to have, but a necessity. Adopting a more purpose-driven mindset will help companies drive sustainable growth while making a lasting positive impact.

Organizational preparedness to anticipate and react to external shocks and disruptions.



Source: McKinsey & Company

Holly Stiles
Head of Corporate Finance, Partner, Grant Thornton

"The first six months of 2023 was patchy for M&A transactions. Repeated interest rate rises and growing uncertainty about the economy, led to increased caution, resulting in vendor hesitation to start a sale process, valuation gaps and transactions taking longer. However, with a general acceptance that we are at, or near, the peak of interest rates and strong performances during FY23 from business across many sectors, deal momentum has increased in the last couple of months. Whilst certain sectors are still under significant pressure and the rate of insolvencies has increased, we expect to see strong transaction activity over the coming year across high performing sectors such as business services, IT services, health, education and software. In addition to numerous active private equity firms, looking for new platform businesses as well as bolt ons to existing investments, we are also seeing strong interest particularly from international corporate acquirers."

Leading indicators

56% ↑

Bankruptcy & Insolvency transactions increased by 56% this quarter and by 114% YoY

15% ↑

Capital raising activity increased by 15% this quarter and by 2% YoY

7% ↓

M&A activity decreased by 7% this quarter and by 21% YoY

13% ↓

Targeted acquisitions were down 13% this quarter but up 21% YoY

11% ↑

Tech M&A deals increased by 11% this quarter, but were down 54% YoY

13% ↓

Healthcare M&A deals decreased by 13% this quarter, and were down 12% YoY

38% ↑

Financial services M&A deals increased by 38% this quarter, but decreased by 18% YoY

17% ↓

Consumer Staples M&A deals decreased by 17% this quarter and by 13% YoY

0%

Real Estate M&A transactions saw 0% growth this quarter, but increased by 11% YoY

Data room usage: New deals by percentage growth

	% of growth			
	Quarterly Growth (QoQ)	Qtr compared to relative period in the previous year (PCP)	Growth over 12 months (YoY)	Growth relative (12 months vs prev 12 months) (PCP)
	Q2 2023 comp to Q1 2023	Q2 2023 comp to Q2 2022	1-July-22 - 30-June-23 comp to 1-July-21 - 30-June-22	1-July-22 - 30-June-23 comp to 1-July-20 - 30-June-21
Bankruptcy/ Insolvency	**56%**	**25%**	**114%**	**-24%**
Capital Raise/ Private Placement	**15%**	**18%**	**2%**	**61%**
Financing/ Refinancing	**-11%**	**-15%**	**-7%**	**31%**
IPO	**33%**	**-38%**	**-74%**	**-32%**
Joint Venture	**-57%**	**40%**	**-32%**	**-11%**
Merger / Asset Sale / Divestment	**-7%**	**10%**	**-21%**	**18%**
Raising a fund (Financial Sponsors)	**-25%**	**-30%**	**-72%**	**13%**
Targeted Acquisition	**-13%**	**34%**	**21%**	**24%**

Data rooms by sector: New deals (M&A) by percentage growth

	% of growth			
	Quarterly Growth (QoQ)	Qtr compared to relative period in the previous year (PCP)	Growth over 12 months (YoY)	Growth relative (12 months vs prev 12 months) (PCP)
	Q2 2023 comp to Q1 2023	Q2 2023 comp to Q2 2022	1-July-22 - 30-June-23 comp to 1-July-21 - 30-June-22	1-July-22 - 30-June-23 comp to 1-July-20 - 30-June-21
Communication Services	**-64%**	**67%**	**-11%**	**15%**
Consumer Discretionary	**-24%**	**13%**	**-34%**	**9%**
Consumer Staples	**-17%**	**-21%**	**-13%**	**-8%**
Energy	**100%**	**6%**	**-20%**	**18%**
Financials	**38%**	**2%**	**-18%**	**15%**
Healthcare	**-13%**	**-19%**	**-12%**	**10%**
Industrials	**-12%**	**1%**	**-25%**	**22%**
Information Technology	**11%**	**44%**	**-54%**	**16%**
Materials	**-42%**	**28%**	**-7%**	**-1%**
Real Estate	**0%**	**5%**	**11%**	**68%**
Utilities	**-31%**	**29%**	**-9%**	**6%**

Data rooms by industry: New deals by percentage growth (all transaction types)

	% of growth			
	Quarterly Growth (QoQ)	Qtr compared to relative period in the previous year (PCP)	Growth over 12 months (YoY)	Growth relative (12 months vs prev 12 months) (PCP)
	Q2 2023 comp to Q1 2023	Q2 2023 comp to Q2 2022	1-July-22 - 30-June-23 comp to 1-July-21 - 30-June-22	1-July-22 - 30-June-23 comp to 1-July-20 - 30-June-21
Automobiles & Components	**-38%**	**80%**	**-3%**	**11%**
Banks	**-29%**	**-71%**	**-9%**	**10%**
Capital Goods	**-38%**	**-15%**	**-29%**	**15%**
Commercial & Professional Services	**23%**	**46%**	**-22%**	**34%**
Consumer Durables & Apparel	**0%**	**-38%**	**-51%**	**2%**
Consumer Services	**-13%**	**43%**	**-38%**	**14%**
Diversified Financials	**179%**	**4%**	**-17%**	**20%**
Food & Staples Retailing	**-71%**	**-40%**	**-38%**	**17%**
Food, Beverage & Tobacco	**17%**	**-24%**	**-9%**	**-14%**

(Continued) Data rooms by industry: New deals by percentage growth (all transaction types)

	% of growth			
	Quarterly Growth (QoQ)	Qtr compared to relative period in the previous year (PCP)	Growth over 12 months (YoY)	Growth relative (12 months vs prev 12 months) (PCP)
	Q2 2023 comp to Q1 2023	Q2 2023 comp to Q2 2022	1-July-22 - 30-June-23 comp to 1-July-21 - 30-June-22	1-July-22 - 30-June-23 comp to 1-July-20 - 30-June-21
Healthcare Equipment & Services	**3%**	**-13%**	**-8%**	**5%**
Household & Personal Products	**-20%**	**200%**	**50%**	**-33%**
Insurance	**-77%**	**42%**	**-24%**	**7%**
Pharmaceuticals, Biotechnology & Life Sciences	**-86%**	**-36%**	**-28%**	**39%**
Retailing	**-77%**	**25%**	**-32%**	**24%**
Software & Services	**10%**	**45%**	**-57%**	**16%**
Technology Hardware & Equipment	**0%**	**38%**	**-31%**	**20%**
Telecommunication Services	**-64%**	**67%**	**-11%**	**15%**
Transportation	**-7%**	**-17%**	**-20%**	**21%**

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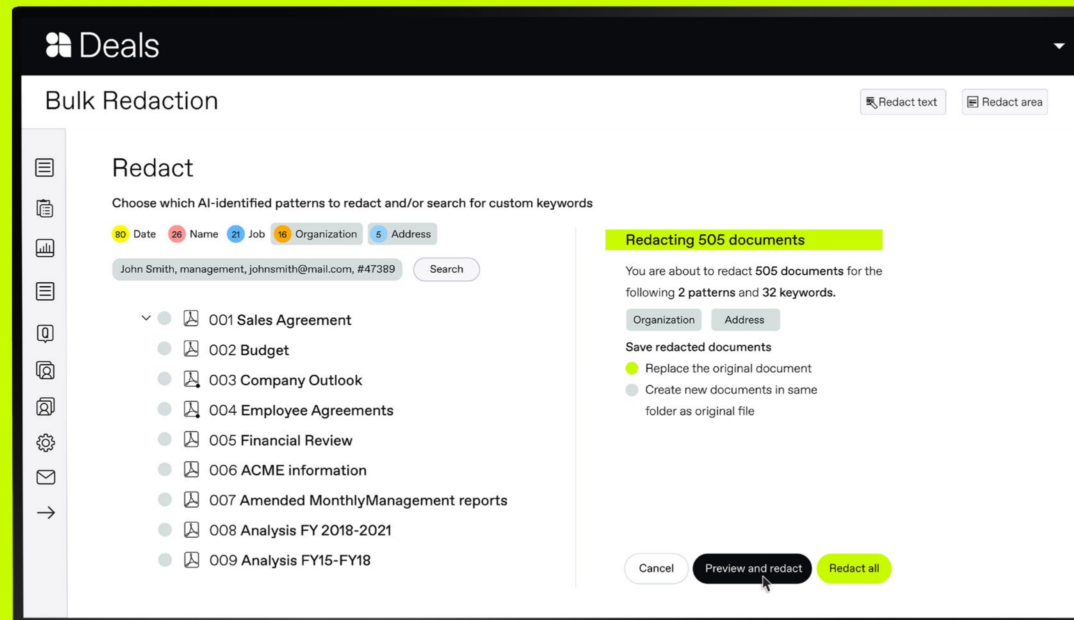


M&A

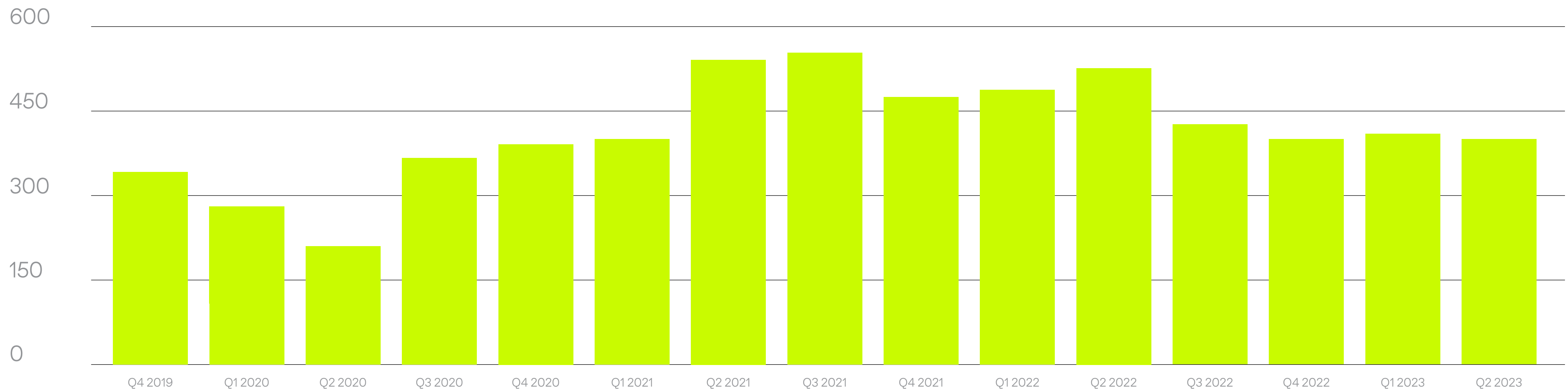
M&A growth rates normalize after recent bumper years

New M&A deals commencing decreased by 7% this quarter but increased by 10% compared to the previous corresponding period. Over the whole financial year, M&A activity was down 21%.

In their Global M&A Industry Trends: 2023 report, PwC predicts a healthier level of mid-market deals to dominate M&A activity, driving strategic growth agendas. Their own data aligns closely with Indicators – while closed M&A deal volumes declined by 4% in the first half of 2023, they remain above pre-pandemic levels, showing a stabilization and steady-paced growth in M&A activity. Much of the activity is expected to be driven by middle and lower markets, which have stayed solid despite the slowdown in larger M&A deals.

The numbers paint a picture of stabilization after the bumper post-COVID years and the megadeals of 2021. As shown by the below chart, M&A deal volumes are steadily returning to the typical growth levels we would expect. Volumes have fallen back toward pre-pandemic levels, but stronger.

It's not necessarily all smooth sailing though. Bain & Company calls the current M&A market 'lethargic' and 'weird', characterized by ups, downs, and mixed signals.



'Deal valuations have fallen dramatically, but hover above a typical downturn trough. Central banks continue to raise interest rates, yet an inverted bond market suggests a coming reversal. Layoffs have accelerated, but the hiring market remains resilient. Inflation has slowed, but persists. The much-anticipated recession hasn't officially arrived, yet executives are deploying downturn playbooks with a renewed focus on cost discipline.' (Bain & Company).

Despite the perceived sluggishness in M&A activity, teams are actively preparing for the future by focusing on strategic repositioning, business model changes, and preparing for more complex due diligence processes, so they can be ready to act quickly when the market ramps up again.

There are already signs of an M&A boom in Asia, particularly in the Oil & Gas market. According to research conducted by Rystad Energy, it is predicted that there will be a significant increase in M&A deals in Southeast Asia, involving more than $5 billion worth of assets that will become available for acquisition. The majority of these opportunities are located in Indonesia, with assets valued at around $2 billion being offered for sale. Following Indonesia are Malaysia and Vietnam, where approximately $1.4 billion and $1 billion worth of assets are respectively up for sale. So far in 2023, around $700 million worth of deals have already been finalized in the region. This marks the most active start to upstream M&A activities in Southeast Asia since 2019.

M&A as a catalyst for transformation

Dealmakers may have kicked off 2023 with a cautious outlook due to recession fears and rising interest rates, but inflation is slowing, and opportunities are starting to arise out of dynamic market conditions. The companies that thrive in such an environment will be those executing bold M&A strategies focused on transformative business models.

Businesses will explore new avenues of value creation that aren't purely financial, but are means of driving profit through purpose. In their mid-year update, PwC writes that previously lesser-considered levers, like energy efficiency, green tax credits and sustainable financing, are becoming more important for deal success. The importance of considering sustainability performance in M&A is at a peak.

M&A will play a critical role for companies who are ready to make a shift and build resilience through access to new capabilities, talent, or markets – with sustainability, AI and digital transformation at the top of the 2024 agenda.

2024 agenda

Targeted Acquisitions

Transformative sectors boom but buyers face challenges

New targeted acquisitions commencing decreased by 13% this quarter (QoQ) but were up 34% compared to the same quarter in the 2022. Over the whole financial year, targeted acquisition activity was up 21% YoY.

In the current market, buyers looking to make acquisitions are facing significant challenges. To succeed in securing a deal, they need a strong and well-substantiated business case for their investment, demonstrating how the deal will create value and showing clear, quantifiable outcomes from the acquisition.

Buyers should be prepared to invest beyond the purchase price to ensure the success of the acquired business. This could involve further investments in technology, infrastructure, talent, or other areas that can enhance the company's performance. PwC warns that securing financing for deals is becoming more difficult.

Traditional funding sources may no longer be as readily available, or they might come with terms that do not align with the expected returns from the acquisition. Buyers may need to be creative and resourceful in seeking capital to fund their deals.

The race to AI drives buying spree

Technology continues to drive digitization and change, with generative AI the next major hype. Pressure is on CEOs to demonstrate they are incorporating AI into their strategy; the race to lead in the red-hot AI space is generating a wave of acquisition and investments, but AI talent scarcity will pose challenges for acquisition strategies.

$1 billion

Tech companies are at the forefront (surprise, surprise), with giants like Salesforce Ventures, Google and Microsoft investing hundreds of millions into AI startups – but other industries are following suit. PwC in the US recently unveiled its plan to dedicate $1 billion to AI initiatives and the upskilling of its workforce within the next three years.

Renewables a hot commodity

AI isn't the only thing driving transformation and creating M&A opportunities. Renewables acquisitions are also a hot commodity, increasing competition for assets amid a push to meet aggressive renewables targets and net-zero goals.

40%

This upward trend is playing out across the globe. In the past four years, Europe has seen the highest renewables deal activity with approximately 40% of deals involving a Europe-based target. North America has seen the second highest activity levels, followed by Asia Pacific (McKinsey).

Various players – from individual developers and financial institutions to oil & gas and utility companies – are actively seeking to acquire to meet distinct strategic purposes. As such, there is a strong anticipation of major growth in M&A activities within the renewable energy sector, although buyers should be wary of factors like energy security, market fluctuations and rising electricity costs.

Capital Raising

Has the capital raising slump hit bottom?

New capital raising activity was up by 15% this quarter (QoQ), and up 2% over the whole financial year (YoY), showing initial promising signs of a turnaround after a slow 2022 and start to 2023.

According to data from Crunchbase, global funding in the first quarter of 2023 only reached $76 billion —a 53% decline YoY compared to $162 billion in the first quarter of 2022.

Despite the decrease in activity, private company investors are sitting on record levels of uninvested capital, and it's anticipated that new opportunities – particularly those related to AI technology and sustainability – will drive activity into the year.

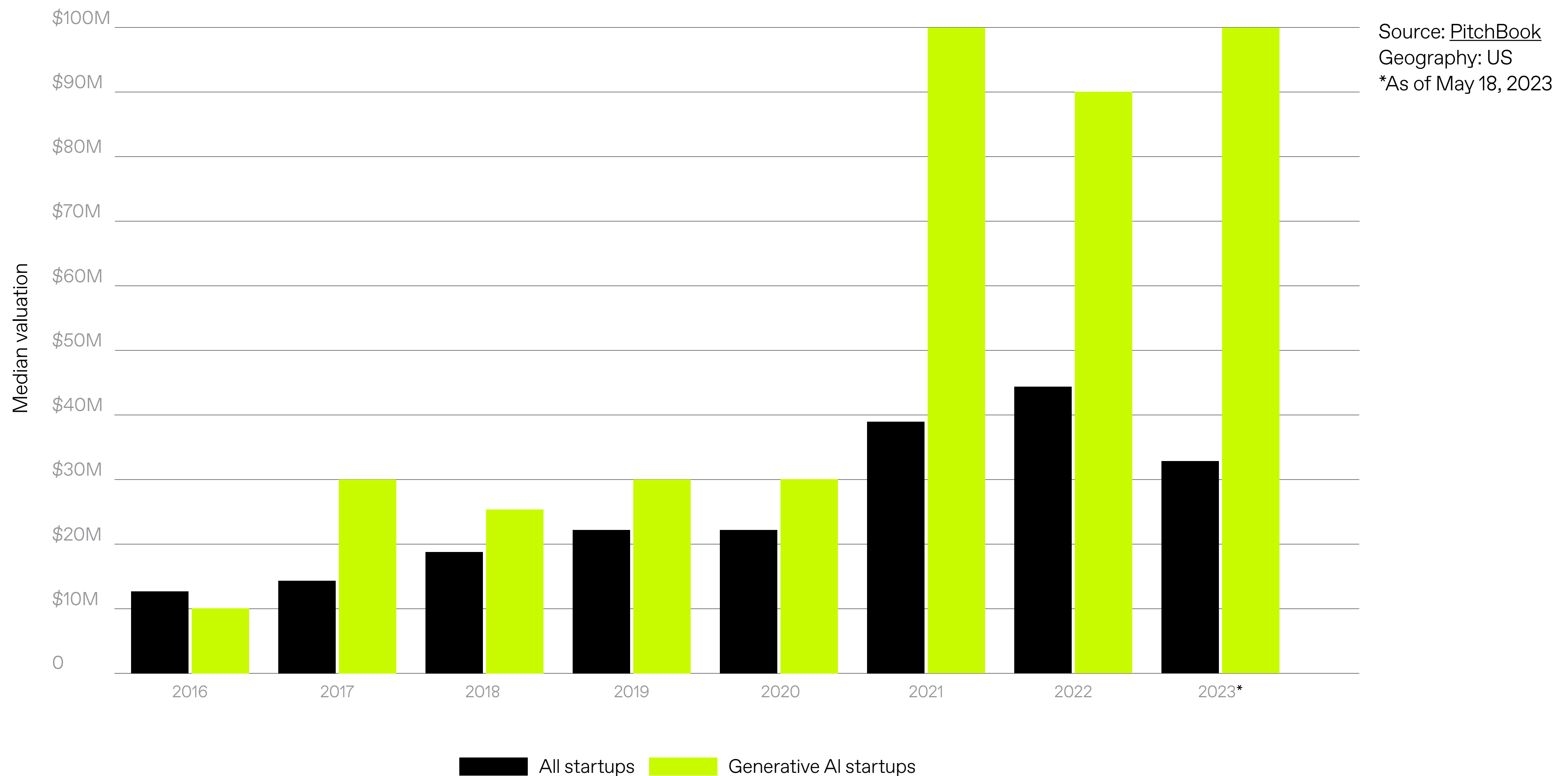
How generative AI is impacting investors

Early-stage investors are now living in two different worlds. According to Pitchbook, the first part involves reviewing startup pitches showcasing the potential of generative AI, and the other involves supporting existing portfolio companies as they do their best to survive.

While investors may be taking a cautious approach to 'everything else', given the uncertainty of the market, generative AI is being measured on very different criteria – 'sheer potential'.

As the following graph from Pitchbook demonstrates, the transformative power of new AI technologies should not be underestimated.

Median early-stage pre-money valuations of generative AI compared to all startups



Source: PitchBook
Geography: US
*As of May 18, 2023

Is the purpose-driven investor calling the shots?

The nature of the venture capital investor is changing. According to Steve Maarbani, CEO and founder of VentureCrowd, younger investors have different priorities that are influencing their funding decisions.

93%

"This group is much more purpose-driven than we've seen in the past. They're tending to prioritize their investment decisions around things like sustainability, egalitarianism and social-cohesion concepts alongside financial returns in a way that previous generations haven't," says Maarbani.

Gone are the days when securing capital was solely about profits. Today, sustainability concerns reign supreme in the world of raising. To meet investor demand and attract investment, organizations today need to prove their commitment to sustainability.

93% of global institutional investors actively consider ESG and sustainability in their investment decisions, with 17% considering it a critical factor (Business Green).

Morgan Stanley's Institute for Sustainable Investing 2021 report showed that 79% of all investors and 99% of millennial investors reported interest in sustainable investing. Their research also showed that sustainable funds outperformed traditional funds, and the S&P 500 ESG Index has outperformed the broader S&P 500 for the past decade.

Sustainable businesses are associated with higher resilience and decreased volatility. Historically, sustainable funds have bounced back during economic downturns including the 2008 and 2018 market breakdowns.

For these reasons, ESG investments are starting to be viewed by many as a buffer against current market uncertainties. Factors like effective governance, transparent supply chains, and reduced environmental impact can shield companies from ESG-related risks, which have the potential to increase volatility and disruption.

On the flip side, failure to address sustainability issues – or failure to address them early enough – leads to risk. Companies seeking capital need to be prepared for ESG issues to be raised and questioned by investors. Sub-par disclosures on ESG will put companies at risk of losing access to key sources of capital.

To get the highest valuation and the largest pool of potential investors in a raise, quality sustainability disclosures at the due diligence stage are a must-have. Given the overwhelming benefits, being required to disclose sustainability information should be viewed as an opportunity, rather than a hurdle.

Jo Ruitenberg,
Partner, Hamilton Locke

"Undoubtedly it is still a challenging market in which to raise capital. While VCs and PEs have plenty of dry powder, the theme of the last quarter is the deployment of capital to their existing portfolio companies and more caution being directed towards new investments. Certainly, the terms on which capital is being offered to new investments is very investor friendly."

IPO

Going public: IPOs are on the rise again

New IPO deals commencing increased by 33% this quarter (QoQ), despite a decrease of 74% over the full financial year (YoY).This turnaround suggests a resurgence in IPO activity is likely after a slower 2022.

In their Global IPO Trends Q2 2023, EY predicts that IPO activity will rebound in late 2023 as economic conditions and market sentiment improve as we see the final stage of tight monetary policy. It's anticipated that major markets will witness large corporate spin-offs and carve-out listings as companies seek to enhance shareholder value through divestiture. Investors, on the other hand, are favoring established, profitable businesses amid a slow IPO market recovery.

To succeed in different IPO markets, companies must understand specific requirements, meet investor expectations, and avoid regulatory delays. Investors are becoming more selective, looking for companies with strong fundamentals and proven track records. Exploring various options, such as alternative IPO processes (direct listing or de-SPAC merger) or alternative financing methods (private capital, debt, or trade sale), is essential.

Despite the uncertain global economy and unpredictable geopolitical landscape, certain stock markets are thriving with low volatility. Technology and clean energy sectors, in particular, show signs of increased IPO activity.

Well-established companies are displaying resilience, while growth narratives with realistic valuations are gaining market acceptance. In this dynamic environment, companies must prepare to be 'IPO-ready' for potential opportunities ahead.

Where did all the SPACs go?

The market for special purpose acquisition companies (SPACs) has steadily declined since the boom in 2021. S&P Global Market Intelligence data shows that there were just 86 SPAC IPOs in 2022, compared to 610 in 2021.

J.P. Morgan Asset Management has called the SPAC era spurred by the pandemic 'disastrous' and 'nothing short of a train wreck', with approximately 90% of SPACs underperforming the equity markets by as much as 70%.

"Even more than crypto, the metaverse, and unprofitable hydrogen [and electric vehicle] companies, SPACs may be the best example of the corrosive effects of too much stimulus on markets, investments, and risk appetite," said Michael Cembalest, chairman of market and investment strategy for J.P. Morgan Asset Management.

Out of the 431 SPACs that merged between 2020-2021, there were only 10% that didn't experience negative net returns. SPACs that went public in 2020 exhibited the poorest performance, causing investors to suffer a median loss of over 80 percent.

Cementing the end of the SPAC era, an increasing number of these ventures have faced bankruptcy amid ongoing concerns about the speculative nature of SPACs. Three recent examples include Quanergy Systems Inc., Fast Radius Inc., and Enjoy Technology Inc., which all went from making their stock market debuts last year via SPAC – to filing for bankruptcy within a surprisingly short time span.

Bankruptcy & Insolvency

Bankruptcies increase by 56% globally

New bankruptcy or insolvency transactions increased by 56% this quarter (QoQ), and were up 114% over the full financial year (YoY). Of all the open bankruptcy/insolvency deals run through the Ansarada platform last quarter, 36% of them were in Healthcare, 29% were in Real Estate, 21% were in Consumer Staples, and 14% were in Tech.

The combination of an energy crisis, rising interest rates, and economic shocks are all contributing to a surge of bankruptcies, which we are already seeing play out in the market.

The number of struggling businesses facing insolvency is increasing rapidly. The most recent Global Insolvency Index from Allianz shows that in 2023, it's likely there will be a 21% increase, with an additional 4% increase in 2024. Almost half of the countries included in the Index are likely to surpass their pre-pandemic levels of insolvencies in 2023 – three out of five by 2024. In Europe, France, Germany, Italy and the UK are expected to experience significant increases in insolvencies. In the US, the number of insolvencies is projected to rise by 49% in 2023 due to tighter credit conditions and economic slowdown. Some of the hardest hit industries globally include construction, retail, and services.

Business collapses in Australia reach highest level in 7 years

Australia, the number of business collapses has reached its highest level in over seven years, extending beyond the property construction sector to include retail, healthcare, childcare, and mining industries.

Last June, business-to-business trade payment defaults soared to a record high of 1586, marking a significant 52 percent surge compared to the previous year, according to the CreditorWatch business risk index.

The surge in insolvencies can be attributed to factors such as higher interest rates, reduced consumer spending, and some company directors surrendering their businesses after a brief pandemic-related relief. A new report on the nation's insolvency regime has been tabled to review Australia's insolvency laws and prioritize improvements to business restructuring pathways.

Scott Butler
Partner, Hall & Wilcox

"After historically low levels of insolvencies in FY21 and FY22 (40% to 50% lower), largely due to COVID related government stimulus, the number of insolvencies has gradually increased in FY23 and is now back to similar levels as seen between FY17 to FY20. Whilst we expect some further increase in insolvency levels over the next year, given inflation has dropped quicker than expected, interest rates appear to have peaked, and the risk of recession looks to have dissipated, we do not expect those levels to be materially higher than the recent (pre-covid) historical average."

Building resilience will be key in a distressed economy

Companies are being tested as they struggle with reduced profits, limited cash reserves, and tighter financial conditions. Building resilience through early contingency planning, including analysis of third-party suppliers and ESG performance, will help companies spot the warning signs and act early.

In a distressed economy, managing Environmental, Social, and Governance (ESG) risks becomes crucial. Disruptions from ESG issues like oil spills and supply chain disruptions not only harm reputations, but also have significant economic consequences.

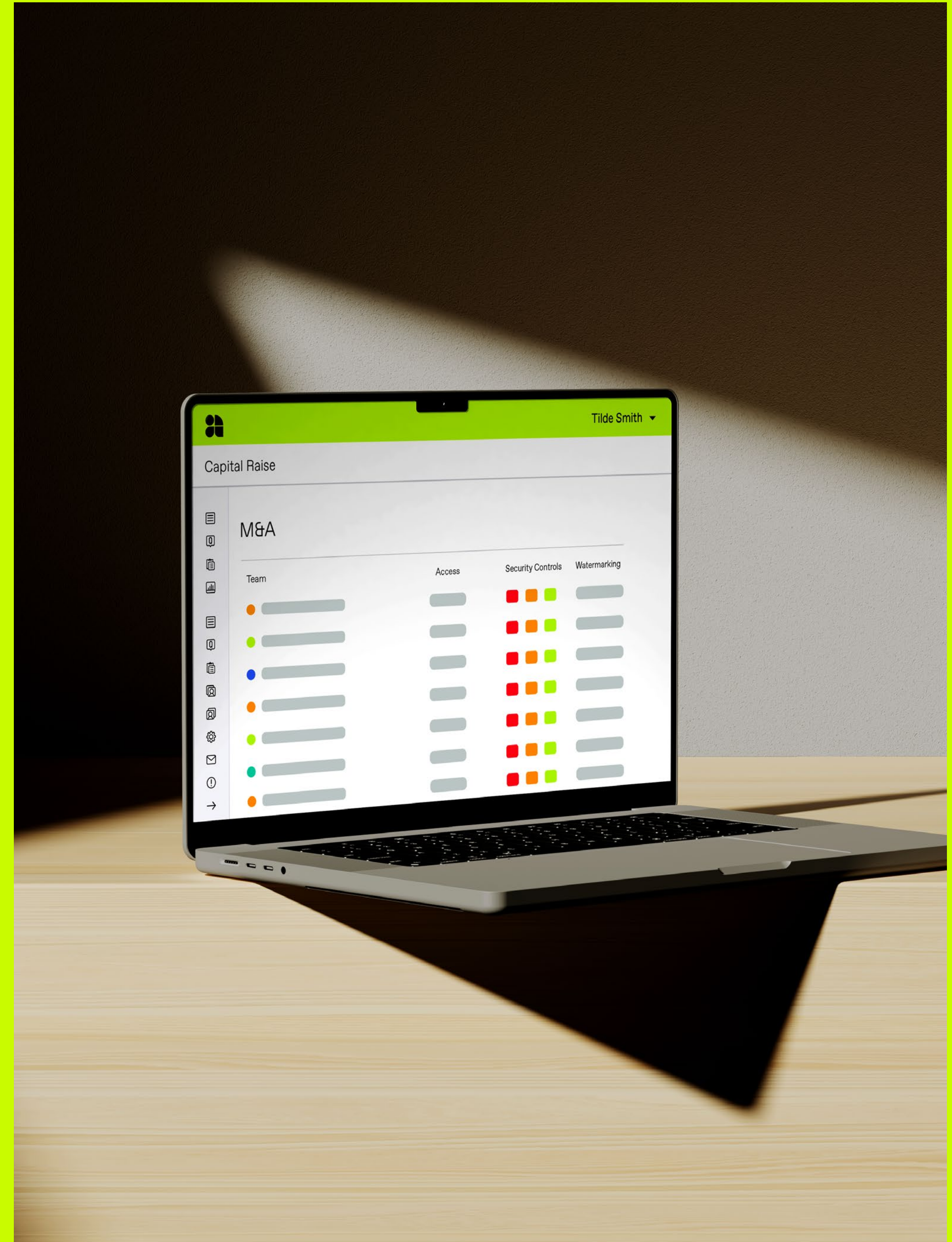
ESG is increasingly recognized as a critical risk factor affecting profitability. Environmental and social events can lead to significant liabilities, making ESG a top priority for executives. Evaluating governance structures and implementing sustainable policies helps businesses mitigate ESG risks, but during economic downturns, businesses tend to prioritize short-term survival, neglecting critical ESG concerns. To thrive, companies must consider the long-term implications and strengthen supply chains and contingency plans. Embracing ESG principles will enhance resilience in the volatile economic climate.

Nicholas Edwards

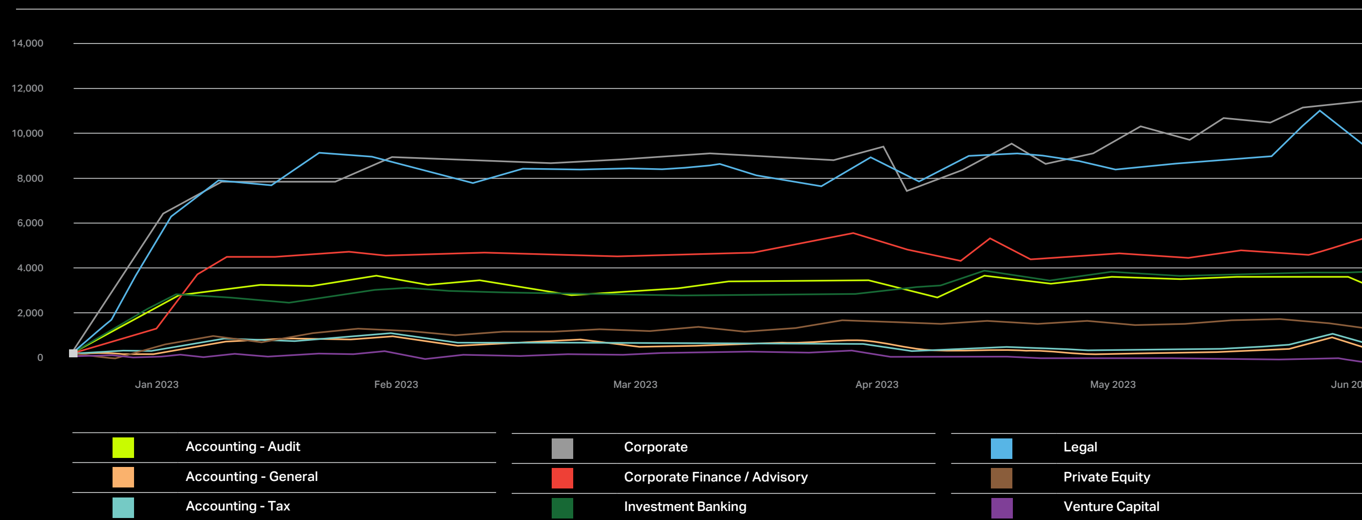
Head of Restructuring and Insolvency, Hamilton Locke

"The growth in insolvency and personal bankruptcy matter numbers highlights the ongoing reversion to pre-pandemic figures for the insolvency sector. The quantum of formal insolvency appointments, however remain historically low (noting the number of insolvencies immediately prior to the COVID-19 pandemic were comparatively weak) and the number of formal appointments resulting in a substantive sale of business or restructure requiring data room usage only makes up a small percentage of appointments. We expect the number of insolvencies to increase further as ongoing external issues such as inflationary pressure, declining consumer confidence, firmer attitudes from non-bank lenders and more active recovery action from the ATO continue to play out."

What's driving behaviours in the data room?



Corporate roles overtake legal for most data room logins



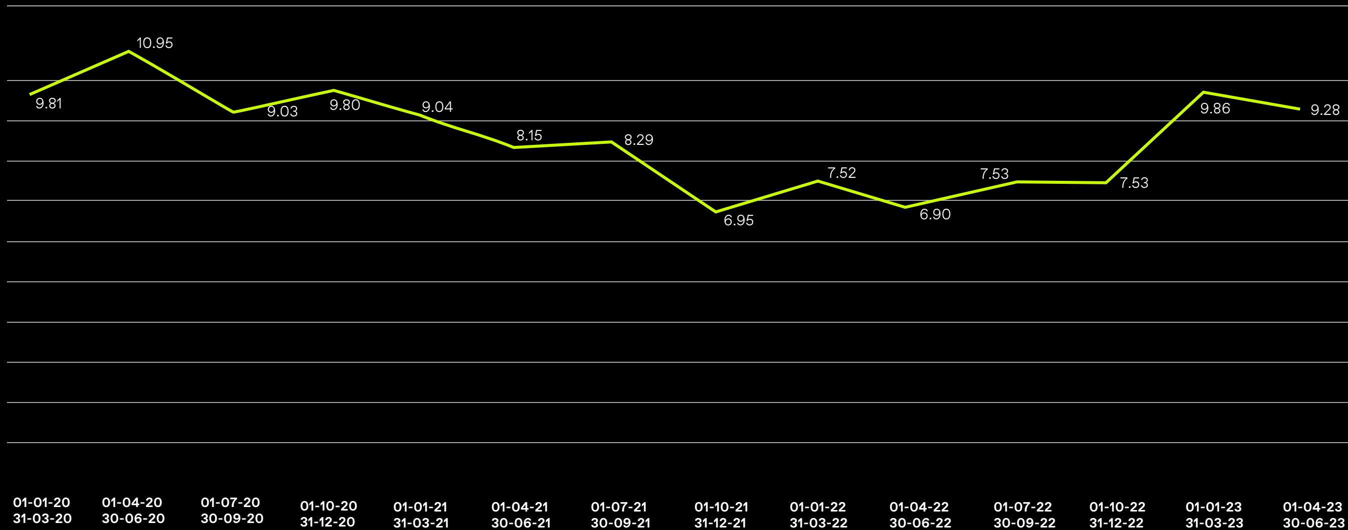
Corporate roles had the most data room logins in the last 6 months, peaking at over 19,260 logins toward the end of June 2023.

Legal roles – previously the frontrunner for login activity – peaked at 14,581 logins for the same period. Corporate advisory roles came in third place overall, with logins only slightly above consulting roles.

The surge in corporate logins to the data room – and their rigorous due diligence for transactional success – may account for this shift. With ongoing market uncertainty and instability, corporates are likely to continue spending more time within the data room to validate their decisions and ensure they are confident.

More and more, corporates are using their own self-service data rooms to start preparations early, without relying as heavily on their lawyers and advisors.

Deals are taking nearly 3 months longer to complete



The first quarter of 2023 saw the longest average M&A deal duration recorded since COVID, with deals taking an average of 9.9 months (300 days) to complete. The average deal duration in the second quarter of 2020 was 10.9 months (333 days)

By contrast, the second quarter of 2022 saw the shortest timelines, with an average deal duration of 6.9 months (209 days). Since that period, the average has steadily increased to nearly a full 3 months longer.

The volatile deal environment, characterized by challenging conditions and tight financing markets, means deal processes are taking longer and outcomes are more uncertain, requiring deeper due diligence. This uncertainty correlates with the longer deal timeline blowouts seen in the early days of the pandemic. Sellers might have been able to get away with limited information and still get a premium price for their assets a year ago, when there was plenty of capital available.

Today, buyers are more cautious and thorough in their evaluations. Sellers need to anticipate this heightened level of scrutiny and be "deal ready," meaning they should have all necessary information and documentation ready for due diligence.

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Rushing the selling process can hinder management's ability to adequately plan, prepare, and optimize the business before it goes to market. This lack of preparation could lead to price reductions or even cause the deal to fall through entirely.

Factors such as Environmental, Social and Governance (ESG) are adding new levels of complexity to due diligence processes, with sustainability disclosures now front of mind for buyers and investors alike.

Sellers need to be fully prepared and proactive in providing comprehensive information and data, including a roadmap for how they plan to address sustainability considerations, to potential buyers to meet the increased scrutiny in the current challenging deal environment. Rushing the process without proper preparation will negatively impact deal outcomes.

	H1 2022	H2 2022	H1 2023
Date Range	1 Jan 2022 - 30 June 2022	1 July 2022 - 31 Dec 2022	1 Jan 2023 - 30 June 2023
Average # of bid groups	5.4 bid groups	5.4 bid groups	6.5 bid groups
Average deal duration	7.2 months (219 days)	7.5 months (230 days)	9.3 months (282 days)

Ze Hu
Partner/Co-Founder, Adastra

"We are seeing the continued trend of transactions taking longer to sign and complete in 1H 2023 (not surprisingly). Buyers and investors are now taking longer to complete due diligence and requiring more buyer friendly terms in sales / investment documentations. Whilst this is reflected through less announced M&A and capital raising transactions at a macro level, as vendors grow to appreciate the need for being better prepared, we are actually seeing an increased level of inbound activity from vendors who want to engage us early to stay ahead of the curve."

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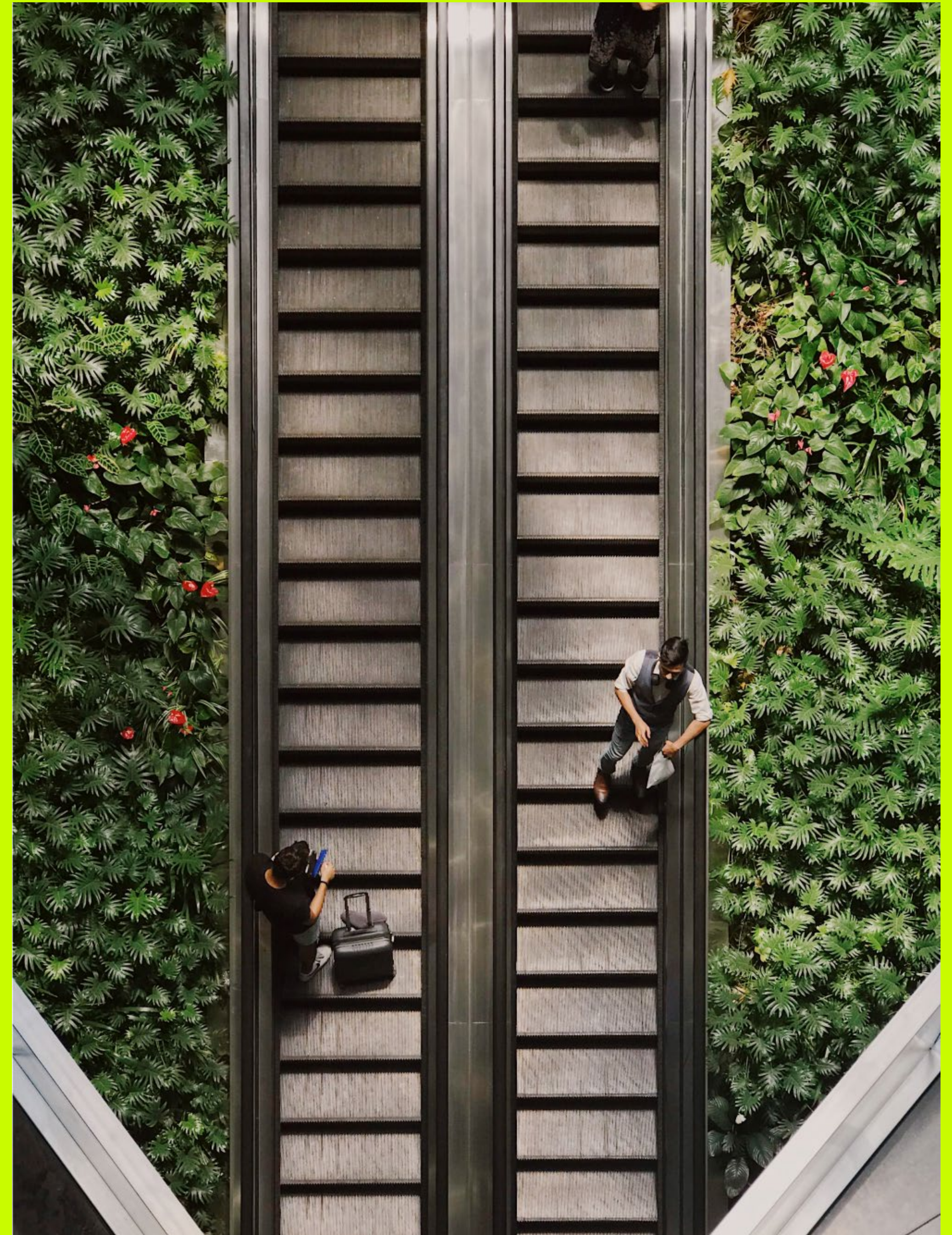
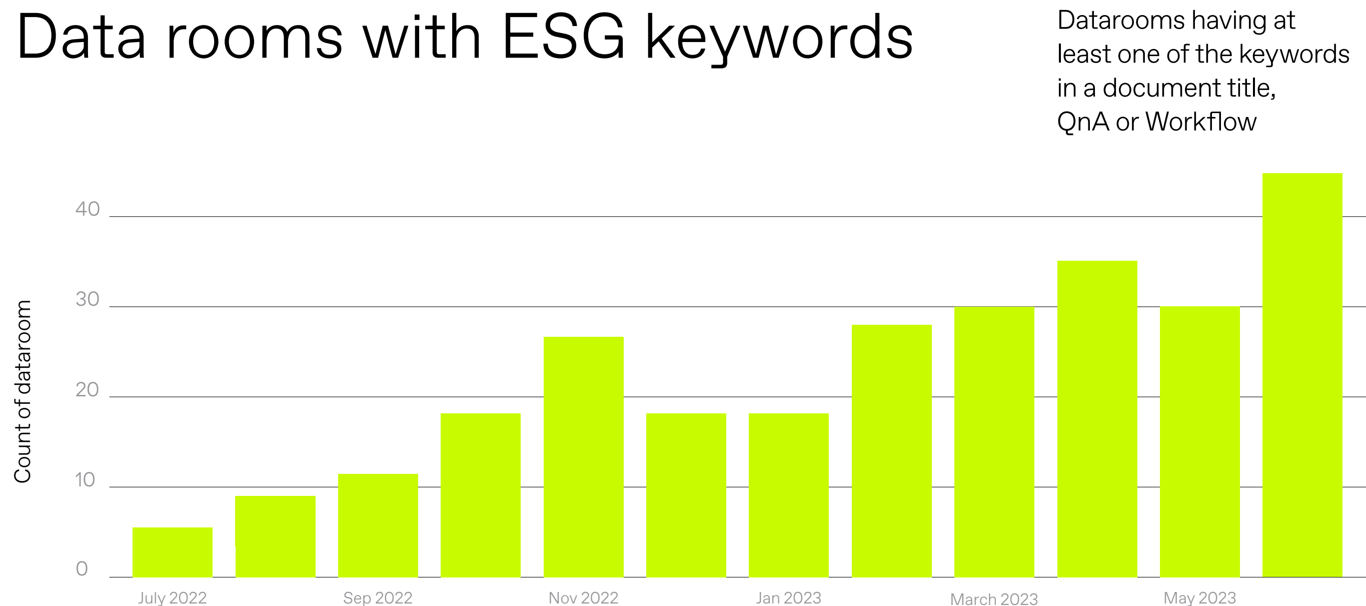
ESG in Deals



Increasing prevalence of ESG trends in deals

Data rooms with ESG keywords

Datarooms having at least one of the keywords in a document title, QnA or Workflow



We assessed Ansarada Data Rooms – including documents in the Document Index, Q&A and Workflow spaces – for occurrences of the following keywords: ESG, Materiality Assessment, Sustainable Development Goals, GRI, SASB, and Corporate Social Responsibility.

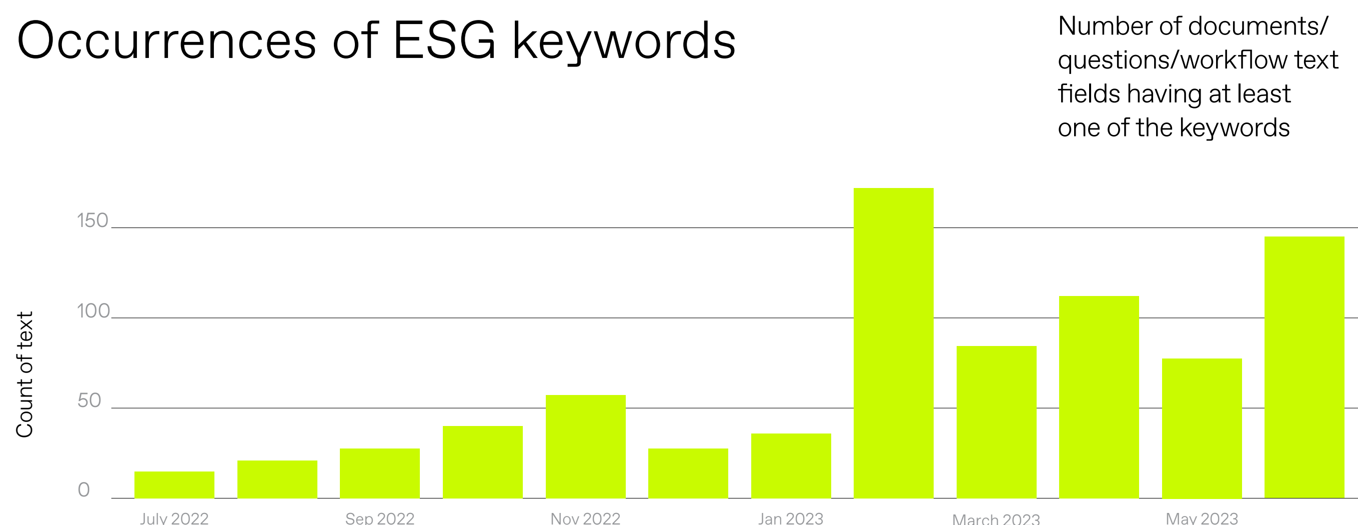
The data shows a steady and significant increase in both the number of rooms containing these ESG keywords, as well as the number of occurrences of those keywords. In July 2022, there were only 5 Data Rooms containing at least one of the ESG keywords. By June of 2023, there were 58 – an increase of 1060%.

While the pandemic undoubtedly put the spotlight on ESG – the ‘S’ for Social in particular – and driven growth, the large spike this past February could be also attributed in part to Europe’s new cornerstone ESG mandate.

The Corporate Sustainability Reporting Directive (CSRD) came into force on 5 January 2023, affecting not just EU-based companies, but many companies with operations in EU jurisdictions. This law mandates ‘double materiality’, requiring organizations to consider their social and environmental impacts on society alongside the financial impacts of sustainability upon the organization, to provide more extensive, in-depth sustainability reporting than in the past. By 2026, CSRD is anticipated to extend beyond large European-based companies to include small and medium-sized enterprises as well.

Occurrences of ESG keywords

Number of documents/questions/workflow text fields having at least one of the keywords



180

Looking at the same time period, there were only 7 occurrences of these keywords in July 2022, compared to 180 in June 2023 – an increase of over 2471%.

Meg Lee
Partner, Hall & Wilcox

"We are not surprised to see the significant step change in the occurrence of ESG in the data, up from only 7 references in the July 22 data to 180 references in June 23. ESG as a key consideration in M&A deals is only going to increase as companies come under pressure from investors, shareholders and regulators to demonstrate they have a clear strategy in place and understand their ESG risks. Bidders will therefore need to understand the target company ESG risks as well as upside opportunities."

Is ESG now a key deal maker or breaker?

According to KPMG, 65% of international dealmakers believe ESG is a key consideration when making investments and in mergers & acquisitions (M&A) decisions.

"Having worked with a lot of advisors and done a lot of deals, if you're having a coffee with a prospective client, thinking of going ahead with this deal...there is no point in waiting. The further progressed [on ESG], the better you will look and the better the organization will perform," said Katherine Todd, Executive Director, Gresham Advisory. Dealmakers are starting to think about the 'ESG accretion and dilution of a potential deal, in the same way that historically the focus has been on earnings per share (EPS) accretion and dilution' (Environmental Finance).

"Increasingly, we are seeing ESG be a little bit of a deal breaker for transactions," said Trisha Taneja, Deutsche Bank ESG Capital Markets and Advisory Head. "A lot of big corporates don't want to make acquisitions that are ESG dilutive." To get the highest valuations and the largest pool of potential bidders or investors, advisors need to guide their clients through sustainable deals.

"If, in a group of companies in a given sector, there is one lagging behind [on ESG aspects], clearly it will be a challenge for that company to get access to equity and debt. It's now something that's core to the analysis of investors and banks," said Olivier Menard, Head of Green and Sustainable Finance APAC at Natixis.

Where companies are taking this into account, dealmakers are still lagging behind. While 65% of dealmakers expect the focus on ESG to increase over the next three years, only 11% extensively assess ESG during the dealmaking process on a regular basis (Bain & Company).

The later in the deal process ESG is considered and acted upon, the more risks will emerge as the deal evolves. Issues of decreased bidders, competition, decreased valuation, negotiation risks, terms pressures and increased deal timeframes are some issues which are expected to eventuate with more and more frequency for deals that don't take a proactive leading practice approach on ESG.

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01 # Industry

02 # Spotlight

Be bold and buy: 11% increase in tech deals suggest a bounce back

New tech M&A deals commencing increased by 11% this quarter (QoQ) but decreased by 54% over the financial year (YoY).

The numbers suggest a bouncing back of the dealmaking slowdown seen since the record post-pandemic highs. Several factors contributed to the slowdown in tech M&A, including deteriorating macroeconomic and geo-political conditions. The prices of publicly traded tech stocks saw a significant dip, particularly in the US, impacting valuation expectations and creating a gap between sellers and buyers that extended due diligence timelines.

Despite the uncertainty, there are significant opportunities for technology companies to make bold, strategic moves in the current conditions. Research from Bain & Company suggests it's a buyers' market for tech, with valuations dropping and assets becoming more affordable.

To take advantage of this opportunity, companies should act with urgency to make advantageous M&A deals. By proactively pursuing deals, conducting thorough diligence, and focusing on realizing valuable synergies, tech companies will position themselves for growth and maximize the benefits of their acquisitions.

Andrew McFarlane
M&A Partner, BDO

"While the software and services sector has been challenged over the past 12 months, with M&A deals down 57% YoY, there are clear signs of recovery, with new deals in the technology space rebounding 10% in the most recent quarter. Investment appetite across all software verticals remains strong for both strategics chasing consolidation in a lower organic growth environment and financial sponsors attracted to the sector's profitable recurring revenue profile. Across the technology services sector, the latest global megatrend (artificial intelligence) along with a heightened cyber security environment have both helped drive deals locally."

AI ‘FOMO’ could drive M&A across the startup landscape.

AI ‘FOMO’ could drive M&A across the startup landscape. We’re already seeing this buying spree play out when it comes to the latest and greatest in tech – namely, generative AI.

The booming interest in generative artificial intelligence is not just creating FOMO – it’s spurring a flurry of acquisitions among startups in the sector as major tech companies compete to gain a foothold in the market.

This surge in demand has the potential to reinvigorate M&A activity across the entire startup landscape – not solely tech.

Tech layoffs shuffle top-tier talent

The past few months have seen tech layoffs in the spotlight. According to tech industry layoff tracker Layoffs.fyi, 833 companies reduced their workforces in 2023, with the largest cuts occurring at the most high-profile companies. The number of tech workers laid off in 2022 amounted to 1,058, surpassing the combined layoffs of 2020 and 2021 combined.

Rather than a concerning spiral, this trend suggests a natural reversal of the hiring spree that occurred during the pandemic, when consumer demand for technology was through the roof. The shift to digital happened seemingly overnight. Today, the numbers have reverted closer to the levels seen in 2019.

At the beginning of 2022, most tech company layoffs were observed in startups. However, by early 2023, tech giants like Meta and Twitter also experienced layoffs. On the plus side, this put top-tier talent back out onto the employment market.

Finding AI tech talent will continue to be a challenge. According to a survey from McKinsey & Company, the most popular strategy today involves reskilling existing employees through ‘apprenticeships that blend on-the-job learning of business skills with tech-training programs’.

Telecoms M&A deals decrease by 64%

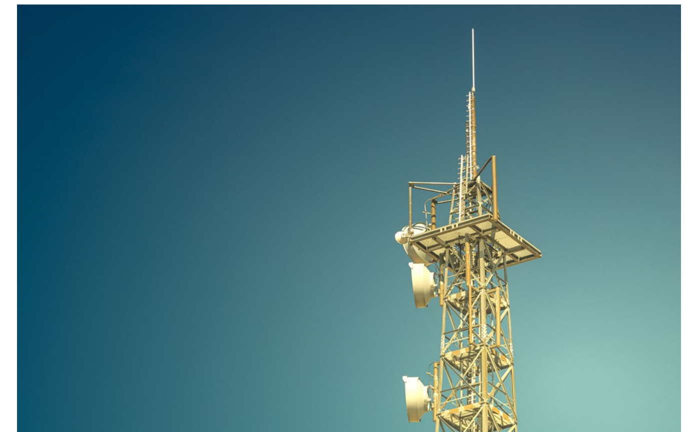
New telecoms M&A deals commencing decreased by 64% this quarter (QoQ) and by 11% over the full financial year (YoY). According to data from Bain & Company, global telecom M&A value fell by 82% in the first quarter of 2023.

Telecoms companies are facing a huge amount of industry transformation, which is impacting the strategies and decisions of telecom operators. The telecoms M&A market is being influenced by infrastructure deals, consolidation, and the pursuit of higher-growth revenue streams through tech convergence.

Infrastructure deals dominated the telecoms M&A market in the first quarter of 2023, particularly infrastructure divestments, including the sale of digital infrastructure assets like cell towers and fiber assets.

Consolidation within the telecoms sector is expected to continue, though the pace may slow as players focus on debt reduction to mitigate higher interest rates. Examples of recent consolidation include Rogers Communications' acquisition of Shaw Communications in Canada and Vodafone Group's sale of a stake in its German joint venture to Altice.

Tech convergence is also driving M&A activity among telecom operators as they seek to pivot towards higher-growth revenue streams. Capability-driven bolt-on acquisitions focusing on front-end and back-office infrastructure, including data analytics, cybersecurity, and cloud segments, are expected to be attractive areas for M&A activity.



Clean energy transition expected to drive late surge in EUMI deals

With the exception of Energy, all EUMI sectors saw a decrease in new M&A deals commencing this quarter. Utilities M&A deals were down 31% QoQ, Materials were down 42% and Industrials were down 12%. New Energy M&A deals commencing were up 100% QoQ, but down 20% over the full financial year (YoY).

Despite an overall slowdown in M&A activity during the first half of 2023, investment in the energy, utilities, materials, and industrials sectors is expected to surge as the global push to meet energy transition goals intensifies.

Companies around the world – across all industries – are considering how they can transform their business models in line with reducing carbon emissions, pursuing net-zero strategies, digitalization, and changing consumer preferences.

The challenge for businesses during this transformative period is striking the right balance between generating short-term value for shareholders and building the resilience and adaptability required to thrive in an advanced-technology, low-carbon environment.

To thrive in this transition, companies need to be flexible and quick to adjust their supply chains and overall operations. Those who take early and decisive action to transform their business models – through mergers and acquisitions or other transactional activity – will be in the strongest position to create value and achieve sustainable, long-term success.

Highly competitive environment for critical minerals assets

50% ↑

“A typical electric car requires six times the mineral inputs of a conventional car and an onshore wind plant requires nine times more mineral resources than a gas-fired plant. Since 2010 the average amount of minerals needed for a new unit of power generation capacity has increased by 50% as the share of renewables in new investment has risen.” (International Energy Agency).

The transition to clean energy brings with it a new set of challenges. As clean technologies like electric vehicles, solar panels, and wind turbines start to be used at scale, competition for the minerals required to support these technologies is increasing. Minerals like copper, nickel, lithium, cobalt and rare earth elements are in high demand.

Lithium, as one example, has such high prices currently that even giants like Rio Tinto aren’t willing to purchase them yet – despite the strong interest. They anticipate a shortage of the battery mineral, noting that ‘committed lithium supply and capacity expansions will only contribute about 15% to supply growth over the 2023-2050 period’ – the rest will need to come from new projects. Ensuring a secure and stable energy supply will be a key driver of capital flows, particularly for these scarce minerals that are essential for battery production and energy storage.

To maintain competitiveness, miners are turning to diversification in terms of geography and commodities. Recent examples of such deals include Glencore’s proposed acquisition of Teck and Vale’s plan to separate its Energy Transition Materials business and sell a 10% stake in the unit to unlock value from their portfolios (PwC).

Mining leaders should urgently acquire assets essential for their companies’ future growth as opportunities become scarcer. M&A provides a way for miners to scale up, optimize their portfolios, and achieve synergies in a dynamic market.

Financial services M&A deals increase by 38%

Smaller acquisitions could be the key to Financial Services growth

New financial services M&A deals commencing increased by 38% last quarter (QoQ) but decreased by 18% over the financial year (YoY). The highly-regulated industry has faced a challenging few years, but financial services is a market in need of transformation, and M&A will continue to play a vital role in making this a reality.

Amid the ongoing efforts to control inflation, several major central banks such as the US Federal Reserve, the European Central Bank, and the Bank of England have been raising interest rates. Coupled with some high-profile bank failures, like the recent collapse of Silicon Valley Bank, this has added to the prevailing market uncertainty. Banking M&A transactions were down 29% this past quarter (QoQ), and down 9% over the full financial year.

Established players now find themselves navigating through a highly uncertain macroeconomic landscape, facing regulatory pressures, grappling with concerns linked to sustainability, and encountering disruptions from emerging platforms and fintech ventures. Technology – most notably generative AI – poses potential for further sector upheaval.

Given these challenges, financial services companies are being compelled to adopt more transformative approaches, emphasizing digitalization, ESG integration, and portfolio optimization, as they respond to the pressing need for adaptation and progress.

In this climate, it's anticipated that companies in the financial services sector will employ a strategy of smaller acquisitions, with the aim to improve their capabilities and foster future growth by leveraging economies of scale and scope. While organic growth encounters significant obstacles, this method will provide an alternative route to expansion.

Acquisitions shake up payment systems

Over the last decade, the payments landscape has undergone constant change, driven by technological advancements, shifting consumer preferences, and higher digital expectations. However, in the past year, the economic environment has reshaped this industry, marked by geopolitical sanctions, rising inflation, and disrupted supply chains. These factors have imposed financial pressures on companies, leading to increased costs, reduced transaction volumes, and a challenging business landscape.

As a response to the unprecedented squeeze on the payments sector, companies – much like those in the tech industry – have been forced to implement significant layoffs, especially in the face of pressure from activist investors. Nonetheless, this challenging situation is also prompting a reshuffling of business strategies, with a notable focus on acquisitions.

Acquisitions have always been common in the payments industry, but they have now gained renewed interest as a means to both drive business growth and enhance operational efficiency. As a result, the industry is witnessing substantial consolidation in various segments, reflecting ongoing efforts to adapt and thrive amidst the current economic uncertainties.

Recent examples include Fifth Third Bancorp's acquisition of embedded payments platform Rize Money, e-money player Paynetics acquiring digital payments app player Phyre, and OFX's acquisition of automation and spend management player Paytron.

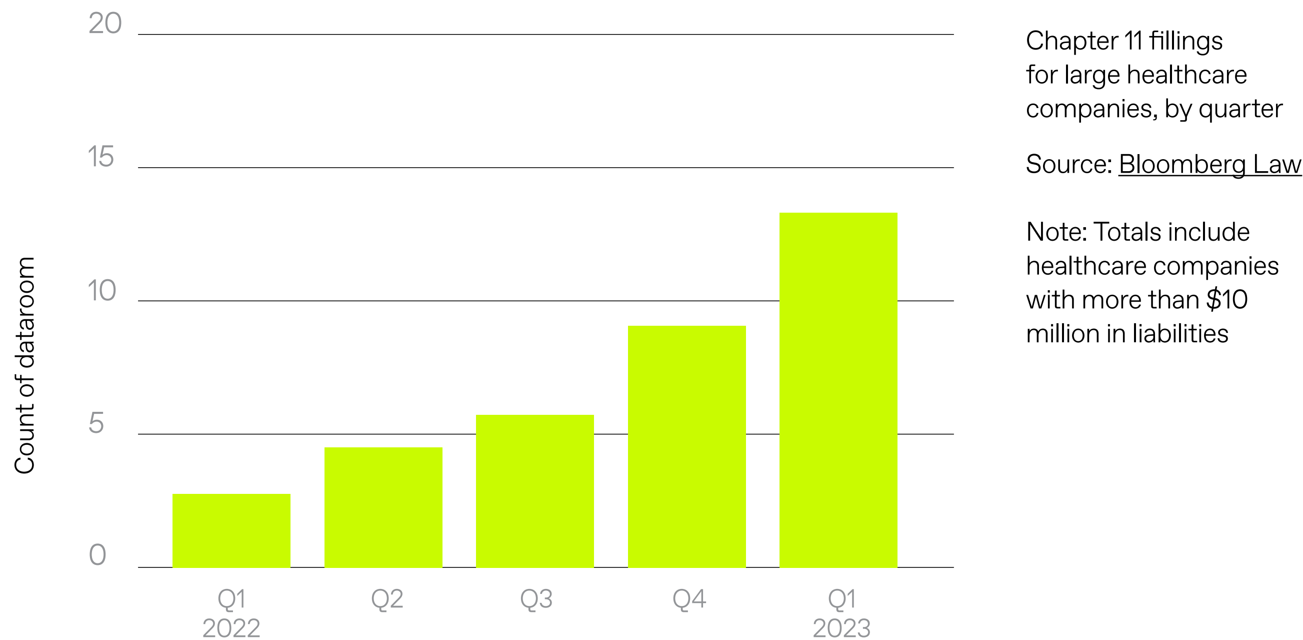
Healthcare M&A deals down 13%

New Healthcare M&A deals were down 13% QoQ, and down 12% over the last 12 months (YoY). And the Indicators data isn't the only source showing that the Healthcare sector has faced a challenging start to 2023. Data from CB Insights shows that global digital health funding went down 3% QoQ in the same period – from US $3.5 billion to $3.4 billion, the lowest it's been since 2017. It also shows that digital health deals dropped 25% QoQ, with deal count hitting its lowest point since 2015.

In the US, Bloomberg Law data shows a spike in healthcare bankruptcies, brought about in part by labour shortages, rising interest rates and the cutoff of government COVID aid.

The first quarter of this year saw a notable increase in Chapter 11 filings among US healthcare companies. Seventeen companies, encompassing hospitals, senior living centres, and early-stage pharmaceutical product developers, and all with liabilities exceeding $10 million, filed for Chapter 11 (compared to just 7 in the previous year).

Healthcare bankruptcies on the rise



Chapter 11 fillings for large healthcare companies, by quarter

Source: Bloomberg Law

Note: Totals include healthcare companies with more than $10 million in liabilities

Second-half healthcare M&A surge anticipated

It's not all bad news for healthcare companies. PwC estimates a dealmaking surge in the second half of the year, as M&A remains a 'key transformation tool' for health and pharma companies.

Investors continue to show strong interest in these services and private equity firms are eager to use their available funds to acquire innovative healthcare assets. Leading pharmaceutical conglomerates are proactively pursuing M&A opportunities to bolster their pipelines and achieve strategic growth plans, as patents for many best-selling drugs are set to expire in the latter part of the decade.

However, regulatory scrutiny has resulted in delays for some larger deals announced in the first half of 2023, prompting dealmakers to proceed with caution. To navigate this regulatory landscape smoothly, most companies are leaning towards an M&A strategy centred on acquiring more smaller to medium-sized companies.

Dealmaking challenges in the first half of the year were largely due to tough economic conditions and differences in price expectations between buyers and sellers. However, as the valuation gap narrows, it's anticipated we'll see a surge in deal activity in the second half.

Healthcare goes consumer-centric

The consumerization of healthcare is an ongoing trend, with vitamins, minerals, supplements, and nutraceutical companies holding appeal as attractive assets amid a wellness boom.

Separated 'over-the-counter businesses and consumer health firms are keen on fast-tracking their transformation plans through M&A deals, seeking to expand their product offerings in a fragmented market. Private equity firms are likely to continue pursuing a portfolio buy-and-build strategy to boost their platforms, fostering scale and cost efficiencies (PwC).

Consumer Markets down alongside consumer confidence

Consumer Discretionary M&A deals were down 24% QoQ, while Consumer Staples M&A activity was down 17%. Both saw a decrease over the financial year, down 34% and 13% YoY, respectively.

Amid market volatility, the uncertainty around a possible recession and a significant drop in consumer confidence and spending contributed to the slowdown in M&A activity in the sector.

In the short term, dealmakers are seeking signs of increasing stability before diving in to M&A opportunities, but signs of recovery are emerging.

PwC's June 2023 Global Consumer Insights Pulse Survey found '50% of consumers plan to increase their online shopping activity in the next six months' and that they are seeing 'significant increases in expected total expenditure across all retail'.

Technology will be a critical enabler in getting consumer retail back on track. According to research from McKinsey & Company, the 'tech-enabled store of the future can double retailers' EBIT margins and will be easier to operate'. This includes elements like e-commerce, advanced analytics, in-store automation, robotics and more. Retail leaders should 'act now' in order to achieve this level of transformation without falling behind.

Commercial Real Estate struggles to adapt to behavioural shift

New Real Estate M&A deals saw 0% growth QoQ, but an 11% increase over the financial year. Real estate M&A activity has been subdued due to ongoing challenges caused by rising inflation, shifts in monetary policy, and interest rate hikes.

Dramatic changes in the way businesses operate and the ways people live, work, and play post-pandemic are significantly impacting commercial real estate.

In the US, the near collapse of the mall industry is one example of this playing out, with commercial real estate lenders starting to move aggressively against property owners in order to preserve value (Bloomberg). This could be viewed as a warning to office building owners and lenders as to the challenges they may face in coming years.

Smaller US companies that took risky loans to fund office buildings are facing difficulties due in part to the slowing commercial real estate market, the rise of remote work, and prolonged office vacancies. For banks with assets ranging from $1 billion to $10 billion, around 33% of their loans were invested in commercial real estate. Comparatively, larger banks with total assets exceeding $250 billion only had about 6% of their loans dedicated to commercial real estate by the end of last year (Reuters).

These smaller local banks have become more cautious, reducing their involvement in these sectors by being stricter with requirements and making fewer loans – especially following the collapse of Silicon Valley Bank and similar incidents.

In Australia, commercial property insolvencies and restructures are also on the increase, with rising construction costs and high interest rates the main culprits. Colliers Restructuring Property Services team reported more insolvency assets in the first quarter of 2023 than in the whole of 2022.

In Vietnam, the number of bankruptcies among property developers increased by 38.7% last year, driven by inadequate cash flows and soaring raw material expenses. These developers faced challenges in obtaining loans, issuing corporate bonds, and mobilizing capital from customers, leading to a shortage of funds that forced many businesses to postpone or halt various projects.

It's not all doom and gloom – new M&A opportunities will arise as behavioural trends evolve and normalize; investors will seek to capitalize on emerging investment themes and transform their operating models. Capital is still available for M&A, with private capital and select public company investors looking to accelerate deployment activity in real estate.

Sarah Roettgers

Partner, Property, Hamilton Locke

"The substantive growth in real estate M&A deals is reflective of the impacts of the COVID-19 pandemic on the property and construction industry in Australia. In particular, the industrial and logistics sector has been a standout performer. High demand for these properties, which is driven by changes in work culture and consumer habits and the growth of e-commerce, has led to strong industrial rental growth. As vacancy rates remain tight, this asset class has become highly sought-after by investors seeking stable and attractive returns."

5 Key Takeaways

01

M&A activity has stabilized post-COVID but will remain essential for helping businesses adapt to changing environments and achieve transformative goals, especially with developments in new AI technologies. Signs point to a boom in Asia as billions in assets become available for acquisition.

02

The rise in bankruptcy and insolvency transactions highlights the pressure on companies to adapt and be more agile.

03

Deal durations have blown out to match peak pandemic timelines, taking nearly 3 months longer to complete than the previous year and correlating with the level of uncertainty in the market.

04

Corporates have taken over legal and advisory roles for most data room logins, spending more time to validate decisions and feel confident in the cautious environment.

05

The new investor is forcing companies to build resilience and embrace purpose-driven initiatives for long-term success in the face of ongoing turbulence.

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- Q&A workflow engine with email and Excel integration
- Live chat, 24/7 phone and email support
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- Lock, track and self-destruct PDF and Microsoft Office
- Activity reports on users, documents and compliance reporting controls
- AI scoring and prediction of bidder engagement and behavioural insights

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Contract details

Quote no.	Q-02464-1
Contract term	6 months
Contract start date	07/08/2023
Payment terms Net	30 days
Expiry	07/12/2023
Pay by**	CC/DD

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