

HEADWINDS, TAILWINDS AND FOG - REBUILDING EXPERIENCE OF TRANSACTING M&A WITHIN MORE CHALLENGING CONDITIONS

10 January 2023 | Global
Firm news

The global M&A market slowed down notably in the second half of 2022. Will it take off again in 2023?

Leading international law firm Herbert Smith Freehills has published its annual global M&A report titled "[Global M&A Outlook 2023: Headwinds, tailwinds - and fog](#)".

2022 is being termed a "tale of two halves" for M&A activity. While global M&A saw record levels of dealmaking in the first half of the year, the second half experienced a considerable slowdown as the market was impacted by the war in Ukraine, inflationary pressures, rising interest rates and political uncertainty.

Gavin Davies, Head of Global M&A at Herbert Smith Freehills, says:

"The question from 2022 is whether the M&A market can fully absorb the "perma-crisis" state we are now living through with geopolitical tensions raising political, economic and energy security issues. Inflationary pressures are challenging asset valuations in deals, and in some cases testing business viability. Over a decade of low inflation and interest rates mean that we need to rebuild experience of transacting within these more challenging conditions."

The report explores some of the most important legal issues for dealmakers in the current disruptive environment:

- Political considerations playing out through national security regimes
- Geopolitical issues driving operational repositioning
- Carve-out transactions – a key M&A tool in portfolio realignment
- ESG in every deal
- The growing voice of shareholders in M&A

Political risk is a consistent theme in the report and the events in Ukraine brought into sharp focus the risk for companies with global operations. As geopolitical tensions continue to impact decisions by multi-nationals on where to invest and operate, and on when to exit, **Rebecca Maslen-Stannage**, M&A partner and Chair of Herbert Smith Freehills, notes: *"Each crisis has its own characteristics and the next will differ from the last, but our clients are proactively modelling the impact of geopolitical risks materialising and considering the role M&A might play in preserving value, even on scenarios like an enforced exit."*

The report notes a number of factors that are expected to have a significant impact on the M&A market in 2023, including a more challenging deal financing environment and deal terms that favour sellers as well as a rise in distressed and special situations.

Carve-out transactions are also expected to remain a firm feature of the M&A landscape in 2023 as large corporates look to shore up balance sheets and generate value for shareholders, respond to sector-specific trends (e.g. energy transition) and compete for high-quality assets.

Looking ahead, **Caroline Rae**, M&A partner, says: *"Dealmakers may be facing the most challenging environment for M&A since the financial crisis of 2008/2009. The focus for deal lawyers remains the priority of reducing periods between signing and closing, and catering for any negative developments during that gap."*

Gavin Davies concludes: *"Despite challenging conditions, M&A markets are far from closed. Among the drivers of such resilient deal activity are balance sheet planning and the continued hunt for transformational deals by strategics, the deployment of more equity deals by funds and availability of private credit, and the opportunism of well-positioned buyers, including through currency arbitrage and in distressed situations. As the market digests tougher economic circumstances, it remains unclear whether the current slowdown in M&A will be short-lived or prolonged. Headwinds and tailwinds have for some while been the metaphors of choice for global M&A. We now add to those a third weather condition – fog."*

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



GAVIN DAVIES
HEAD OF GLOBAL
M&A PRACTICE,
LONDON
+44 20 7466 2170
Gavin.Davies@hsf.com



CAROLINE RAE
PARTNER, LONDON

+44 20 7466 2916
Caroline.Rae@hsf.com



**REBECCA MASLEN-
STANNAGE**
CHAIR AND SENIOR
PARTNER, SYDNEY
+61 2 9225 5500
Rebecca.Maslen-
Stannage@hsf.com

MEDIA CONTACT

For further information on this news article, please contact:

**WENDY LEE-MCGUINNESS,
COMMUNICATIONS MANAGER**

LONDON

Tel: +44 20 7466 6400

Mob: +44 7920 757510

Email: [wendy.lee-
mcguinness@hsf.com](mailto:wendy.lee-mcguinness@hsf.com)