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Weak Merger Activity to Finish 2023: Crosbie

High interest rates, heightened macro uncertainty weigh on deal flow

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Merger and acquisition activity had its weakest quarter in the past 10 years to end 2023, according to new data from Crosbie & Co. Inc.

The Toronto-based firm reported that there were 546 deals announced in the fourth quarter of 2023, down from 579 in the third quarter. From the same quarter a year ago, deal activity was down by 28%.

"Like last quarter, a higher interest rate macro environment and economic uncertainty continues to dampen participants' motivation to transact," the firm said, adding that the value of deals in the fourth quarter was also down by $4 billion from the previous quarter, to a total of $40 billion.

"Softness in third quarter M&A activity carried over into the year end with market pessimism on several fronts continuing to weigh on corporate confidence, notwithstanding several large M&A transactions announced in late Q4," said Stephen Ng, managing director of Crosbie & Co., in a release.

There were 10 "mega deals" in the fourth quarter (deals worth over $1 billion), which was flat from the third quarter, but the combined value of those deals fell from $32 billion in Q3 to $24.3 billion in Q4.

Crosbie noted that five of the 10 mega-deals were in the resource sectors amid "buoyant" commodity prices.

While the number of deals in the mining sector dropped from 117 in the third quarter to 90 in the fourth quarter, the total value of those deals jumped from less than $2.6 billion to $12.7 billion in the fourth quarter.

The value of energy sector transactions also rose from $4.6 billion in Q3 to $7.1 billion in Q4 even as the number of deals dropped.

The industrials sector continued to lead in terms of deal volume, with 113 transactions in Q4, down from 127 deals in Q3.

"Several factors will impact M&A activity in 2024 including a stabilizing of interest rates and value expectations in all asset classes, elections and geopolitical events in key regions globally, and the ability for private equity to realize on exits to help with fundraising and new investments," Ng said.