Article

Look Before You Leap: The M&A and IPO considerations

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2024 has not met the optimists' predictions for a bumper year of mergers & acquisitions (M&As) and Initial Public Offerings (IPOs). The dampening effects of geopolitical instability, lingering inflation, high interest rates and borrowing costs continued to make the case for patience in the first half of this year.

But most of these factors are dissipating. By the end of the year, nearly 50% of the world's population will have had the opportunity to cast their vote.1 Regime changes will have occurred globally, and while bankers and Private Equity (PE) houses may not welcome every change, they will have much needed clarity on the direction of travel in terms of interest rates and economic policy in the world's largest financial markets.

Inflation in many regions appears to be stabilising and the trajectory of interest rates is mostly down – albeit more slowing than predicted earlier in the year. Potential sellers, holding out for the best possible multiple, may also be running out of time. 2024 has seen global markets start to rebuild and confidence appears to be rising. There are now signs we are moving to a new phase of the market cycle, but the risk environment has evolved and is more multifaceted than before.

Overcoming false dawns

The signs of a reawakening M&A and IPO market are rippling across the insurance market. US risks are seeking capacity in the wholesale insurance market, a sure-fire sign of a quickening pace of activity. After several false dawns, there are signs that M&A and IPO activity is on the rise.

This year has seen highly volatile stock markets, and political uncertainty prompting caution. This volatility is front of mind for global business leaders, and our **Risk & Resilience research** undertaken with 3,500 global business leaders reveals that **21%** believe economic uncertainty is the biggest threat they face this year.2 However, with interest rates starting to track downwards, a few positive transactions could open the floodgates.

Added to this, emerging markets continue to pick up pace. Indian deal activity has remained frenetic3 and Israeli tech activity is returning to near normal levels4. Pan African transactions, particularly focused on the energy market, are becoming an industry staple.5 For those waiting for the opportune moment to launch a M&A or IPO the signs are good. However, caution is required, and while the longstanding risks associated with any capital event or transaction remain, there are also a mix of new threats that could impact the viability and success of deals.

Opportunities and new risks

Environmental, social and governance (ESG) considerations have been on many PE and investor radars for nearly a decade. In the past, companies aiming to float on the stock market or complete significant transactions might have leveraged their ESG credentials in a bid to present a favourable image and generate financial backing. However, they now need to strike a balance of being ESG compliant with many new regulations, without falling foul of anti-trust rules in some US states, and possibly face the ire of ‘anti-woke’ investors who oppose what are deemed to be anti-competitive initiatives.

In the European Union, the Corporate Sustainability Reporting Directive (CSRD) requires companies to disclose detailed ESG data, extending prior initiatives like the Non-Financial Reporting Directive. In the US, the SEC has proposed new rules for climate related disclosures, emphasising emissions reporting and financial risks of climate change. In Australia, the regulator ASIC is introducing mandatory climate related financial risk reporting for large and medium sized companies. Similar legislation is emerging across the globe where ESG reporting is being increasingly mandated or encouraged.

Complying to varied regional standards is no easy task, especially alongside the traditional challenges of an IPO, where maintaining investor confidence is so crucial. In fact, our Risk & Resilience research reveals that **67%** of global business leaders agree that ESG regulation is too complex for their business to comply with.6

Companies and the way they respond to a range of issues and events is now heavily scrutinised on social media, and it can have a profound and enduring effect on their brand and valuation. For example, the emergence of "cancel culture" has altered risk assessments for many company executives. They need to consider not only the financial and operational repercussions of their decisions, but also how these decisions might be interpreted and the reaction of their customers, employees and investors base. This is a significant concern for businesses globally, with our research revealing that **25%** feel unprepared7 to counter the threat posed by reputation risk.

The introduction of generative artificial intelligence (AI) is also changing the landscape. This technology can be game-changing, but it can introduce cyber security threats and also the risk of current products or tech systems becoming antiquated or obsolete. Firms need to weigh up the risk versus reward, and the merits of being a pioneer, early adopter or part of the late majority when it comes to implementing new and often untried and tested technology.

For the M&A and IPO market, 2024 has been something of a recovery year, shaking off the pains of 2022 and 2023. As global markets look to get back into their stride, changes in the risk landscape are making the road ahead trickier to navigate. Making the importance of having the right advisors and insurance partners on board more important than ever.

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1- Elections Around the World in 2024 | TIME

2- beazley.com/en-US/news-and-events/spotlight-on-boardroom-risk-2024/methodology/

3- Deal-making in India hits new high: M&A and PE lead the way, telecom tops | Personal Finance - Business Standard

4- Amid Adversity: Israeli Tech M&A Focuses On High-Value Deals In 2024

5- Africa’s sparkling clean energy future | ALB Article

6- beazley.com/en-US/news-and-events/spotlight-on-boardroom-risk-2024/methodology/

7- ‘Not very well’ and ‘not at all’ prepared answers combined.