USA M&A Outlook 2024

By Matt O'Brien and Onofrio Castiglia

02 Feb 2024

Dealmakers are expecting a vibrant M&A market this year relative to 2023 for infrastructure assets and operating companies, especially in the digital infrastructure and renewables sectors where executives' rapacious appetite for capital, a healthy serving of taxpayer subsidies and a plateauing cost of capital environment could foster ideal conditions for transactions, said nearly all those polled for this report.

True, there is plenty of doom and gloom – take your pick from regional military conflicts, a contentious US presidential election and a bevy of macroeconomic headwinds – however, most investors, advisors and developers have largely tempered those concerns and are now focused on a potentially big 2024. After all, even the casual Keynesian is overcome with glee watching a slow-motion avalanche of government subsidies Congress greenlit in 2021 and 2022 near the end of its trip through a vast state apparatus. Investor patience should pay off soon as taxpayer money is only now beginning to show up for projects – largely portending good things for fiber-optic and energy transition initiatives, executives said.

"We are expecting an active M&A market in 2024," Rob Kupchak, senior managing director at Stonepeak for the North American energy sector, said in an email. "In particular, we believe that transaction activity will be driven by the energy transition adding to the already robust need for capital to maintain aging infrastructure and meet the demands of economic growth and increasing US energy exports. The transactions are likely to include both strategics and sponsor-owned platforms selling assets, bringing in partners or structured capital, or acquisitions of entire companies."

"2024 should be a very good vintage for infrastructure investing," said Blackstone Infrastructure Senior Managing Director Greg Blank. "I think you'll have robust deal activity, and the sector growth we're seeing particularly in digital and energy transition will continue to grow, even accelerate, from what you've seen in recent years."

In 2022 Congress passed the USD 2trn Inflation Reduction Act (IRA), unleashing hundreds of billions of dollars in spending and tax breaks on clean energy initiatives. A year prior Congress passed President Joseph R. Biden's Bipartisan Infrastructure Investment and Jobs Act that included USD 42bn for the new Broadband Equity Access and Deployment (BEADs) program and another USD 1bn for middle-mile fiber initiatives. It's hard to find a renewables executive who doesn't extol the IRA's virtues of bestowing legislative privileges exclusively upon the entire industry. Expectations for all this government largesse alone – though consumer and institutional investor demand will help – are factors driving trading and investment activity to elevated levels for those specific sectors throughout 2024.

Aside from government assistance, the broader infrastructure industry is awash in a historic level of dry powder, certainly a catalyst for dealmaking. UBS estimated the industry raised about USD 330bn in dry powder last year with the bank expecting that figure to remain more or less the same through 2024.

The Fed and Recession Question

The prospect of rate cuts at some point this year in response to fears of a potential recession along with price levels subsiding are giving M&A advisors and investors reasons to be hopeful over the next 12 months. "In 2024, as global growth slows and inflation continues to fall towards central bank targets, we expect to see significant cuts in policy rates from not just the US Federal Reserve but the European Central Bank and the Bank of England as well," Daniel McCormack, head of research for Macquarie Asset Management, said in an email.

The threat of recession hitting the global economy has been an albatross hanging over the heads of dealmakers for well over a year now. How M&A will be affected by a recession is just as unclear as if it will in fact happen at all. "With developed world GDP growth likely to be weak, the investment environment for risk assets could be a tug of war between weak growth on the one hand and falling interest rates on the other," McCormack added.

The matter has only become murkier recently because equivocal market data has led some economists to speculate that the economy might be in for a soft landing or avoid a recession altogether. Fewer economists still have theorized that monetary tightening policies clashing with incredible fiscal expansion have done nothing but prolong the inevitable economic cycle of boom and bust.

Arguably, the most distressing for infrastructure investors is the wall of leverage that needs refinancing this year and next, some executives highlighted. If the Fed does not cut rates in the face of persistent inflation this year or does not cut them as much as the bond market foresees, then that could spell trouble for numerous leveraged firms and the broader economy. KBRA did point out recently that those concerns for this year might be overblown, and that borrowers are more likely to hit the maturity wall in 2026 through 2028.

2023 headlines constantly reminded market players of these realities and that M&A had suffered steep declines as a result, but industry executives who spoke to Infralogic were quick to point out that infrastructure M&A remained strong thanks to the market's classic traits of contracted cash flows, regulatory motes, essential services, and others. For deals considered riskier and more speculative, many were put on hold or timelines pushed out. Just last week PNM Resources said it terminated its merger deal with Avangrid while late last year tower company Crown Castle canceled its synthetic lease auction and regional telco Watch Communications saw talks with a potential suitor fall apart for a second time.

"A number of asset owners held-off on seeking a capital partner or selling their business during the past year due to concerns about inflation, higher interest rates and macroeconomic uncertainty – and how those factors would impact valuations," John Ma, partner and cohead of North America at Igneo Infrastructure Partners, said in an email. "Given the improving macro-outlook and the underlying need for capital to execute business plans and growth opportunities – we anticipate that a number of these owners will come to market this year. We will continue to be very selective however in what opportunities we choose to pursue."

"We think infrastructure assets with entrenched customer bases, strong market positions, and contractual and regulatory protections provide both a downside cushion in the face of uncertain economic growth and higher-for-longer interest rates and a risk-mitigated, collateral-based way to buy exposure to secular trends with high growth potential," KKR Partner and Global Head of Infrastructure Raj Agrawal wrote in the firm's most recent "Market Review" publication.

"Value creation in the current environment has never been more important." Assets that were not subject to value creation or growth suffered in 2023. Macquarie executives estimated that transport and energy midstream demonstrated the sharpest declines in the first half of last year, McCormack said.

Favored Sectors

While most respondents identified digital infrastructure and energy transition as the greatest source of opportunities in 2024, Ma said he is bullish on transportation, logistics, water, and waste as well. McCormack said Macquarie believes clean hydrogen, battery storage, electric vehicles and related infrastructure, carbon capture, and elements of the circular economy, such as waste-to-energy, are also promising for acquisition activity this year.

"In infrastructure the focus will remain on assets that help drive or support the energy transition, such as companies and projects that focus on electricity networks, telecoms, green hydrogen, ammonia, renewables and associated infrastructure," Co-Head of Infrastructure for Allianz Capital Partners Andrew Cox said in an email, adding that the misalignment in price and value expectations between buyers and sellers should begin to improve this year leading to greater M&A volume.

"We are seeing considerable momentum going into January," said David Strauss, principal of technical advisory firm Broadband Success Partners. "Our private equity clients are taking due diligence reports that we had done for them a year prior, but now they refreshed them with our help and have gone back into the market."

One of the catalysts for sparking greater activity in the fiber and broadband markets, proponents say, is public subsidies from the BEADs program – largely a block grant process – which are now beginning to trickle down into the states. "It may not affect us full force until the beginning of 2025 but we're going to start to see some of that activity within the public sector, which is going to fuel the private sector," he said.

Strauss added that the preponderance of M&A activity will fall into the lower to mid-end of the middle market, deals with valuations of USD 100m to USD 300m – a point that Ma agreed with. "We also believe the best opportunities today are in the middle-market where there is consistently a high volume of opportunities in all our target sectors, less competition, and more potential to build long-term sustainable value by working closely with management to drive performance improvements," the Igneo executive said.

Among all digital infrastructure assets, data centers are probably the hottest ticket and one of the notable names in the investment industry, Blackstone, is the biggest believer. "If you look at what we've done over the last 12 months, we've put a lot of capital, and will continue to do so, in the digital space," Blank said. "We've done it on the data center side, we've done it with cell towers. In other sectors, we've put additional capital into our ports business … I think you'll continue to see a lot of growth across the broader infrastructure market given the capital needs."

A more balanced year for power and renewables

In 2023, like many other sectors, power and renewables processes took longer to get done than in 2022 and 2021 and some, ultimately, did not find a home. This year could be a more "balanced" environment from an investment perspective than what it was in those years, said Tim Radcliff, managing director of Denham Capital. It's not an environment for overvalued bids as there's more balance between buyers and sellers.

There's still a lot of opportunities in storage, as well as in renewables more broadly – including in utility scale and distributed generation solar, and onshore wind, Radcliff said. Teams that are employing differentiated technologies and thereby creating a durable competitive advantage in a maturing industry are of interest to Denham. Renewable natural gas and sustainable aviation fuels will present interesting opportunities in 2024 as well. For a long time, it was solar-only or wind-only PPAs that were delivering the very lowest dollar-per-MW hour, in terms of cost. "I think value and reliability is really coming into the forefront in a very major way in being able to provide electrons and molecules when people need them so that it's actually providing value to their business," Radcliff said.

Denham will look for opportunities to invest where there is a structural advantage in time to market, looking for solutions that can be successful in varying political, inflation, and interest rate regimes. "We're looking for resiliency," he said. "That goes regardless of sector."

Buyers in 2023 had the luxury of being more selective than they were before, and respondents said that is expected to continue, if soften, this year. The platform equity market is nowhere near what it was when Arevon took a hard run at Savion in 2021, CEO Kevin Sith said, as he sees valuations as low as half of what they were a couple of years ago at the peak of the market. There's still a lot of activity on platform M&A, but buyers are a lot more selective because of the higher cost of debt, tighter tax equity availability and higher interest rates. "The buyers are a lot more picky," Smith said. "It's certainly not a great time to sell." The market in question matters, he said. The California market is still robust, though sellers will have a harder time in Texas.

Tax equity providers have a lot of options, and the transferability markets are still developing so that avenue has become narrower as well, Smith said. There are still some risks on the supply side, and some people got burned over the last few years acquiring projects, which then saw significant cost escalations due to supply chain issues. That said, some developers need to raise and recycle capital. "We expect to continue to see more play in the market, but we're going to be a pretty choosy buyer," Smith said.

Fossil fuels aren't dead and buried

Despite the hunger for renewables assets, 2024 will also be a year of continued interest in thermal assets. London-based firm McIntyre Partners is looking for those kinds of opportunities in the US, Founding Partner Julian McIntyre said. The firm looks for circumstances where an M&A market is out of sync with underlying industry trends, and those opportunities are ample in US services. "You have a lot of companies that are now on the market, you have no new private equity groups, and the services sector lags to some extent the commodity sector," McIntyre said. His thesis is that we're going to see a significant uptick in opportunities to buy energy services companies at low cash flow multiples. This is happening more quickly in the US because it's easier to deploy rigs there, he said. Look to the Gulf of Mexico for big increases in capex, and the energy services companies are going to be primed to pick up a lot of that work, he added.

The resurgence of thermal M&A was a big surprise in 2023, Patrick Verdonck, founder of independent advisor Verdonck Partners, said. ESG standpoints have moderated, and that mirrors thermal asset owners taking stronger stances on the importance of gas. Short-term interest rate fluctuations in the early part of last year hit renewables valuations, particularly with companies like NextEra, but those were just bumps in the road and valuations recovered by the close of the year, Verdonck said. Holistically, renewables proved hugely resilient in 2023.

The selldowns of public renewables stocks did not translate into the private market and increasing interest rates did not kill financings, Verdonck said. Secular trends toward electrification march on despite macroeconomic turmoil. "I think what 2023 showed is that power, and specifically renewables, is remarkably resilient," he said. "People are going to keep building renewables… There's just so much money looking to be deployed."