

# The Reason for Research: Capitalizing on M&A Activity

FIXED INCOME BULLETIN - FEBRUARY 2025

## KEY TAKEAWAYS

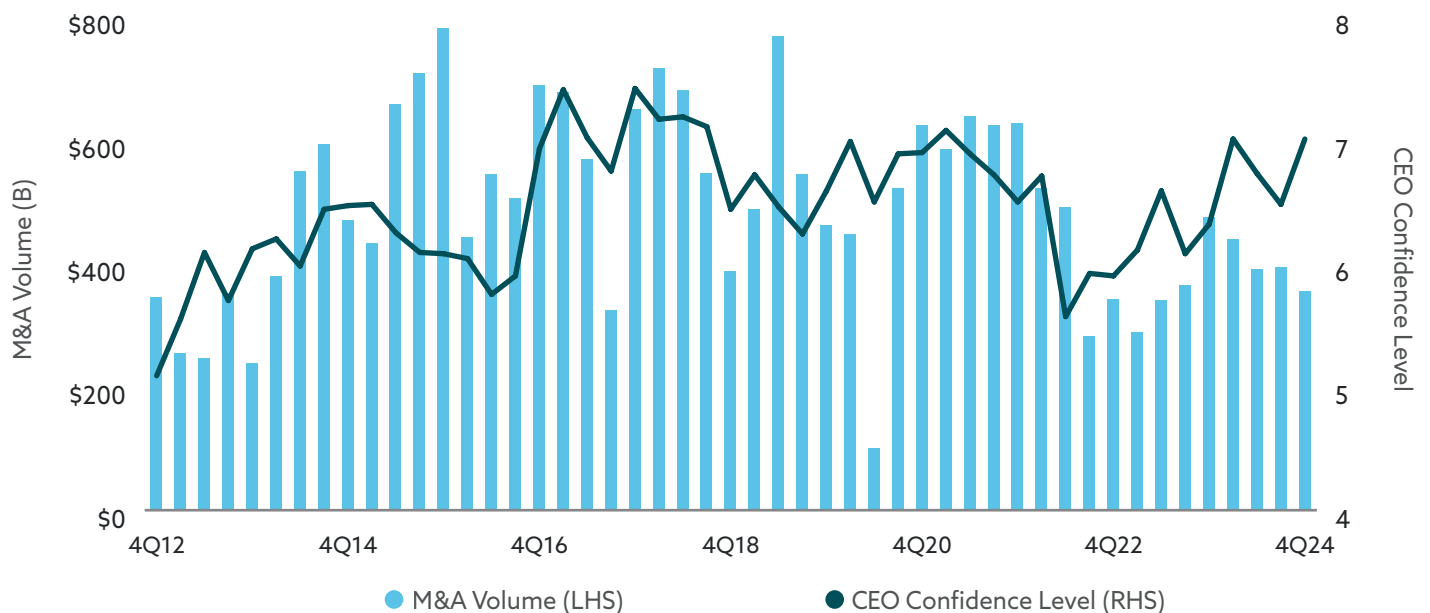
- > Investors can strategically take advantage of M&A activity in the fixed income market by identifying acquirers and targets
- > PPM's credit research team, working collaboratively with portfolio managers and traders, has the experience and processes in place to anticipate potential M&A opportunities and help position client portfolios accordingly

As investors look to put their money to work in 2025, one area to pay attention to is the potential for an increase in M&A activity.<sup>1</sup> [Numerous tailwinds](#), including strong balance sheets, solid fundamentals, a favorable expected regulatory environment, elevated stock valuations and high CEO confidence could culminate in total M&A volume nearing pre-Fed tightening levels.<sup>2</sup> To position our clients to capitalize on M&A deals, PPM utilizes our experienced and robust credit research team to identify advantageous investment opportunities.

## DEEP FUNDAMENTAL BENCH

The 25-person corporate credit analyst team, which collaborates closely with PPM portfolio managers (PM) and traders, is organized by industry and covers credits across the ratings spectrum and capital structures.<sup>3</sup> We believe both qualitative diligence (e.g., management meetings, roadshows) and quantitative diligence (e.g., detailed financial models) enhance the ability of the team to identify the circumstances that may lead a company into being an acquirer or target.

## GAP BETWEEN CEO CONFIDENCE AND M&A ACTIVITY MAY CLOSE IN 2025<sup>2</sup>



(1) As of 27 February 2025. Unless otherwise stated, the information presented has been prepared from market observations and other sources believed in good faith to be reliable. Information and opinions expressed by PPM are current as of the date indicated and are subject to change without notice. Past performance is no guarantee of future results. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. (2) Bloomberg. Quarterly data for total deal volume of North American M&A activity, which includes pending, completed, terminated, proposed and withdrawn deals and corresponding monthly results of the CEO Confidence Index, which measures CEO's business outlook for the next 12 months on a scale. 10 is an "Excellent" outlook. 9 January 2025. (3) As of 31 January 2025.

For M&A, an acquirer may lack organic growth, have a need to increase scale, or be sitting on a large cash pile. Conversely, a target company may be undergoing management changes or seeking additional capital to fund growth.

One way for investors to gain from an M&A deal is to avoid the acquirers and own the acquirees. Purchasing companies often tend to issue debt to finance the acquisition, which may lead to spread widening. On the other hand, companies being bought may experience a pick-up in performance due to spread tightening as it benefits from increased size and efficiencies.

### COMPREHENSIVE AND CONTINUAL PROCESS

In anticipation of an uptick in M&A transactions in 2024, the research team enhanced our qualitative screening process that identifies sub-sectors and companies that had a high likelihood of benefiting from M&A. Specifically, the team:

- > Assigned expectations for forward M&A action in 55 sub-sectors
- > Determined up to four potential acquirers and targets of each sub-sector
- > Provided a rationale for that M&A view

27 of 79 identified acquirers in high likelihood sub-sectors were involved in deals in 2024. Of those 27, 85% transacted as predicted. Similarly, 15 of 58 identified targets participated in deals, of which 60% transacted as predicted.

Admittedly, correctly calling M&A deals is quite difficult. But the team's steady process and depth of research – including a focus at the issuer level that, in our view, makes our research process unique – resulted in us predicting the right side of a transaction more often than not, providing opportunities to add value to client portfolios.

The team recently performed a similar M&A screening process for this year. Although the results are still to be determined, here is the thinking behind a few of our highest conviction sub-sectors:

> **Media & Entertainment** – Legacy media models will likely use M&A to find ways to compete effectively

> **Food & Beverage** – This sub-sector is inherently acquisitive, though we expect more brands/portfolios to transact rather than full corporations (acquisitions & divestitures versus M&A)

> **Pharmaceuticals** – Patent portfolio management will likely require new growth avenues

It is important to note that this work is ongoing, as we consistently analyze names bottom-up throughout the year and update our views accordingly.

In addition to this M&A screen, PPM's credit research team provides a regular rotation on credit trends across its universe of issuers. These trends include, among other factors, earnings, leverage, ratings and performance. Credit research is our core competency and what we believe is our comparative advantage.

### COLLABORATION ACROSS THE INVESTMENT TEAM

Lastly, PPM emphasizes a culture of collaboration between the credit, trading and portfolio management teams. For example, our trading team could relay to PMs if a potential acquirer's bonds appear to be trading as if they may make an acquisition. They can also alert PMs if a company in the process of an acquisition has widened and may be trading at an attractive level if they issue debt to fund the transaction. Additionally, we may initiate a reverse inquiry process. This occurs when the credit team, empowered by the PMs and traders, have discussions with the management teams of issuers to indicate spread levels and potential orders that would interest us. In this way, client portfolios are built using the best available knowledge and skills of all three teams.



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Head of Fixed Income Research



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Credit Analyst and Team Lead

## ABOUT PPM AMERICA

**Our mission is to be seen by clients and their advisors as a consistently reliable partner to help them achieve their long-term value goals.**

PPM is a US-based institutional asset manager with \$74.42 billion in assets under management as of 31 December 2024.<sup>1</sup> Established in Chicago in 1990, PPM exists to consistently support institutional clients in achieving their

long-term value goals. We offer our Midwestern mentality of hard work, straight talk, full transparency and humility. Our success is supported by a team-based culture that encourages debate, collaboration and consistency. At the center of our belief is the fact that our best ideas to date have and can come from any team member anywhere in our firm. We believe the success of our investment culture is best demonstrated by the strong retention of our clients and investment professionals.

**Past performance is no guarantee of future results.** Investments involve varying degrees of risk and may lose value.

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