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# A Spotlight on M&A

**Mark Gregory**, Chief Economist for the UK&I at EY, takes a look back at M&A activity with the help of his colleague **Barry Perkins**

The global value of announced M&A deals hit a new high of $4.6 trillion in 2015. This strong performance is in stark contrast to the rate of economic growth in the world economy, which is some way off peak levels.

A difficult economic environment can still be positive for M&A activity. With growth hard to find, corporates are looking to improve their market position. M&A is an obvious way to do this, by acquiring a competitor or by adding new products and capabilities.

Corporates have become increasingly Sophisticated, both in their selection and evaluation of target acquisitions, and in their approach to post-deal integration. As a result, M&A is now seen as a relatively low risk form of investment.

Profitability is generally good in the developed world and companies have significant financial reserves. The availability of finance has also improved and the cost of finance has remained relatively low.

Yet despite this favourable environment for capital investment, gross fixed capital formation in the UK and OECD has run below its long-run average since the financial crisis. Some corporates remain nervous about the external environment and are looking for low risk growth investment. In the developed world, M&A appears to be the preferred route for companies looking to balance growth and manage risk.

## A Global Market

It is not just the rate of global economic growth that has changed in recent years, the relative performance between countries has also shifted and this is one of the factors driving M&A activity.

The US' comparably strong economy, corporate profitability and buoyant stock markets helped to support M&A activity of $2.6 trillion, 56 per cent of total global value.

Europe was the other major region for M&A, with European targets accounting for almost 21 per cent of global value and just over 29 per cent of global volumes in 2015.

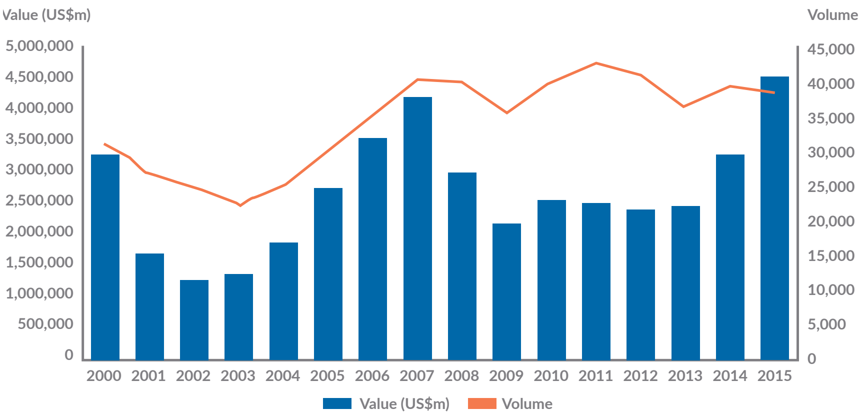
North America and Europe have historically dominated M&A activity. They have the largest markets, more private sector and traded companies, and a tradition of using deals as a way to grow and restructure.

China's economic growth, despite slowing, is still relatively large and this pushed deal values to $674 billon, just shy of 15 per cent of the global total. By contrast, Latin America, where the economic challenges were very real in 2015, saw targeted M&A value of only $86 billion, less than 2 per cent of the global total.

China's scale means it has joined as a hot spot for M&A, but it is also an important source of activity outside its own borders as Chinese businesses continue to internationalise.

With growth returning to Europe, both Chinese and North America buyers have been active in the region, boosting activity.

### Long Term M&A




*Source: Dealogic and EY Analysis. Excludes real estate assets acquisitions*

## Technology and Consumer Sectors Lead the Way

It is not only divergent economic performance between countries that impacts M&A activity, differences across sectors is clear to see. M&A values typically capture the headlines and the largest deals are a window on global mega-trends. However, volumes also matter; the most active sectors may be where innovation is fastest, or where restructuring and disruption are in full swing. >

In 2015, the technology and consumer products sectors led the world on both volumes and values, with life sciences and diversified industrial products just behind on both measures. These results are in part a consequence of the companies looking to position themselves for growth in a difficult economic environment.

The fall in oil prices has provided a boost to consumer spending but capturing this requires adding new products and capabilities, while also looking to M&A to help drive cost efficiency.

As China slows and lower oil and commodity prices hit their capex, industrial companies have moved to rationalise their operations, seeking synergies wherever possible.

The lower activity M&A sectors in 2015 were typically capital intensive and often exposed to public spending and/ or regulation. The oil and gas sector was relatively buoyant in terms of deals, reflecting the pressure to restructure created by the collapse in the oil price.

Technology's performance was very strong, especially given the relative size of the sector. Increasingly companies in this industry are targets for out-of-sector buyers seeking to acquire IP and skills to deploy in their own sectors. This can be motivated by a desire to counter disruption from others, or to be a disrupter. We estimate that the value of this activity has tripled in the last two years and volumes are up over 50 per cent.

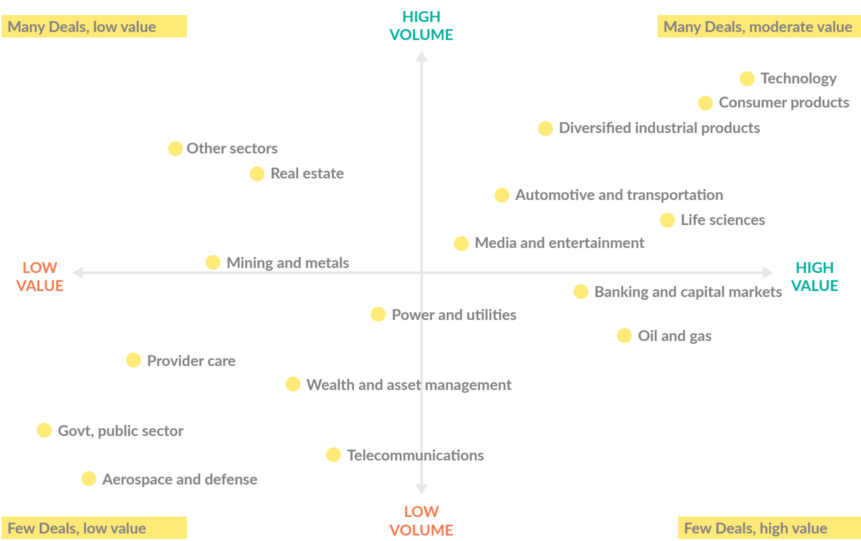
Without a doubt, technology M&A is being used to transform and grow businesses across the whole economy.

## Is There Ever a Bad Time to Buy and Sell?

The economic outlook is an important influencer on M&A activity but the relationship is a complex one, not solely related to economic growth rates. As we might expect from sophisticated users of capital, divergence at both the country and sector level is a major factor driving activity levels.

But it is the use of M&A to restructure business and seek to capture new sources of growth and competitive advantage that is most interesting. Whatever the economic outlook, businesses cannot rest on their laurels. As the record value of transactions in 2015 shows, deals can make sense at any time, whether you are a buyer or seller. ■

**Global M&A 2015: Relative Performance by Sector**




*Source: Dealogic and EY Analysis*

This article was originally published as a blog by Mark Gregory. Find out more [here]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Mark has over 25 years' experience, working in more than 40 countries as an advisor to governments and industry on economics, policy and regulation.

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