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Deloitte M&A Views podcast:
Continuing the momentum: M&A trends report, 2016 year-end edition

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett, today we ask the question, what's in store for mergers and acquisitions in 2017? While 2015 was a record year for combinations, 2016 started with a thud, and results lagged for the first three quarters of the year. But in October and November, companies unleashed an unprecedented wave of deals, making it the busiest such period ever for domestic M&A. Will this momentum be sustained? According to the results of our newest survey of 1,000 corporate executives and private equity investors, activity is poised to accelerate, perhaps significantly. Today we'll discuss this and other findings from the M&A Trends Report, 2016 year-end edition with Russell Thomson, Deloitte's M&A Services national managing partner.

Greg: Russell, thanks for taking some time with us today to chat with us about this latest M&A trends report. How about we start by just outlining what the survey is all about.

Russell: Sure thing, Greg. This is the fourth edition of our M&A trends report and once again we surveyed over 1,000 executives. Three quarters of those were from US-headquartered corporations and about a quarter of them are domestic private equity firms. Given the fluctuations in the M&A market over the past 12 to 18 months – from the record levels you saw in 2015 to that slow start in 2016, and then the more recent rebound over the last few months – what we really wanted to do was hear directly from those driving deal decisions and gauge their expectations for M&A activity in 2017.

So what are some of those key drivers and variables, those new trends? And, as importantly, what are those learnings from prior transactions that we can provide insights that may help your next transaction be more successful?

Greg: No matter where you turn, Russell, people say we live in interesting times that are probably affecting every phase of all the markets. Now, based on the data you've collected, what were some of your most interesting findings?

Russell: There were a number of really interesting things that we uncovered. Firstly, 75 percent of all respondents expect deal activity to increase. And along with the increase in activity, we found that transactions are expected to be bigger. Sixty-four percent, in fact, of corporate respondents expect deal size to also increase. And as you mentioned, we've seen both these trends start to merge over the past few months. Then, in addition, it was divestitures that were once again a major focus for 2017, where 73 percent of respondents said they actually plan to shed businesses next year, which was a significant increase from the 48 percent that we saw in our Spring 2016 M&A trends report.

Greg: There are a lot of naysayers out there in just about every topic from politics to, finance, to world economy. What did the survey data tell you about what could be driving optimism around deal activity right now?

Russell: We actually asked survey respondents that exact question. And as you would expect, many report that there are strong strategic imperatives driving their desire to do deals, including sluggish organic growth. And all of this is further supported by an environment of high stock prices, low interest rates and high levels of balance sheet cash that are conducive to doing more deals. But one interesting perspective was that acquiring technology assets surged to the number two spot as the main strategic driver for M&A, which was more than triple the level of importance factored in the Spring 2016 M&A survey.

And this all ties directly to another key theme that emerged strongly in the survey: that of industry convergence – where technology was seen as the sector most likely to converge with others at about twice the rate of convergence expected in financial services, construction, energy, telecom, professional services and others, respectively.

Greg: Now with all of this activity with everybody climbing on board, seems like it might drive the price up for a lot of M&A activity. Russell, it is anticipated that deals in 2017 are going to be worth it?

Russell: History has shown M&A to be a successful way to grow and add value to businesses, but only if you get it right. Now, many deals don't achieve their intended benefits or upsides and once again respondents indicated that a number of their deals did not return the intended value. However, there was an improvement over the prior year. Last year, 40 percent of respondents said that the value was not generated from more than half of their organizations' deals. This decline saw only ten percent in this year's survey. And when we dive a little deeper into what respondents said made the deals successful, unsurprisingly, the top factor in deal success for corporate respondents was effective integration at nearly 23 percent.

And to me, this really re-emphasized the importance of a well thought out M&A strategy that's not only supported by robust and complete diligence and execution, but also by both: a well-planned and then a very well executed integration.

Greg: Russell, we've got a lot of information here. Is there a way to condense down what we've gotten so far, to wrap it up for our listeners in a tiny package?

Russell: Absolutely, Greg. Let's boil it down to just a few points. Firstly, an optimism for a continued uptick in M&A transactions, both the number and size. Secondly, an acknowledgment of the headwinds that M&A continues to face, including global economic uncertainty. And thirdly, an emphasis on the importance of a well-thought out M&A strategy and planned execution and integration being critical to realizing the intended benefits of any deal.

And perhaps in closing let me say, while the ongoing US presidential transition will likely introduce other variables that will continue to influence the M&A landscape, the survey provides a solid platform of expectations, trends and insights that should serve as a very good baseline.

Greg: I'm Greg Jarrett and thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. We release new podcasts regularly, and if you subscribe, you won't miss a single one. To stay connected and receive more information on Deloitte M&A service offerings, visit www.deloitte.com/us/masubscribe and follow us on Twitter @DeloitteMnA. Be sure to listen to part two of our series on joint ventures. Until next time!