



Deloitte M&A Views podcast:
Driving the deals: US/UK M&A corridor

Transcript

Greg: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. Today, the topic is the US/UK M&A corridor, the most active merger and acquisition arena in the world today, the possible repercussions of the British vote to exit the European Union, and more. Today, we're joined by [Andy Wilson](#), a Deloitte Advisory partner with Deloitte & Touche LLP, who leads Deloitte's US M&A Seller Services Practice; and [Cahal Dowds](#), vice chairman of Deloitte UK, chairman of the Advisory Corporate Finance business, and UK head of the US/UK M&A corridor.

Andy and Cahal, thanks for taking some time to talk with us today about the US/UK deal corridor. Why don't we start at the beginning? Cahal, what is it that's driving all this deal activity between the US and UK?

Cahal: Thanks, Greg. As you see, the appetite for US/UK deals has persisted despite a global slowdown in M&A activity in the last six months. I guess there are two key fundamental drivers for this continued activity. Firstly, there's an increased comfort level between the US and the UK. The US/UK enjoy a high and improving comfort level, in terms of not only business, but investment. What tends to work well in the US works well in the UK, and vice versa. The deal corridor is also no longer the domain of very large corporations. Private equity firms, both large and small, are comfortable with transacting across the corridor. US businesses are comfortable duplicating their successful business models in the US to the UK, and UK players see the US as both a growing and secure market when compared to, say, both Europe and emerging markets.

As well as that increasing comfort level, the second big driver is that investors on both sides of the Atlantic having large levels of capital to deploy. Corporations have record levels of cash on their balance sheets. Private equity firms have raised record levels of funds over the past few years to deploy. So this combined funding power, together with the lower levels of debt finance, fuels the appetite to do deals across this corridor.

Greg: Thank you, Cahal. Now, for this next question, Andy, let me ask you. Is there one big thing, one sector, that is driving the most deal activity between the United States and the United Kingdom?

Andy: Technology deals have been up significantly, especially over the last six months. And it really is both ways. But what we've found is that Silicon Valley has really taken precedence over everywhere but New York in the US. In terms of inbound deal flow, the technology exchange between the two countries is significant. You know, we look at this on a regular basis in our US/UK M&A Deal Monitor. The most recent issue just came out. It talked a lot about the same things that Cahal was talking about earlier. While they were down a little bit in 2015, 2016, it's still one of the most—or the most—important deal corridors in the country. And we provide a significant amount of analysis.

Greg: The elephant in the room: the Brexit vote. The vote by the UK to leave the European Union, and its impact on M&A in this corridor specifically. Andy, let's start with you and how it might be affecting deal discussions.

Andy: Yeah, Brexit ... It's been really interesting because Brexit has certainly gotten a ton of press and has caused a lot of the continuation of uncertainty. But the reality is, it's just one of many uncertainties in the world today. I feel very strongly that the players in the M&A space have begun to get more and more used to significant uncertainty and how we're structuring and working around that.

Greg: Well, the media and a lot of politicians are certainly making a big deal out of Brexit and its possible impact on the world economy and deal flow between continents—the US and the UK. Cahal, what do you think? Do you think it's a big deal?

Cahal: The second half of 2016, will register the impact of the UK's June referendum to leave the Union. The resilience of this deal corridor is certainly about to be tested. But in the short term, what I expect to see with the strength of the dollar, is UK assets looking more attractive. And this will accelerate, particularly in certain sectors like TMT, inbound deal flows from the US and the UK.

Greg: Okay. If we want to know how hot it is, we can always refer to a thermometer. Andy, is there some sort of gauge, some instrument that we can look at to find out about deal flow and how it's going?

Andy: I think a good indicator of exactly this strength and this stability that we continue to see is the debt market. You know, the debt markets are a good indicator of where interest and corporate levels of risk are at. And we haven't seen any sort of massive meltdown, significant contagion, within the debt markets like we may have seen back in '08, '09, which tells me that people are expecting sort of an orderly process that can be worked out. And that ultimately, as Cahal said, the long term focus on deal fundamentals is what's going to play out. To me, that's all going to accelerate deal flow into the UK from the US. And I think that there will be good opportunities as things hammer out with the different trade agreements, with what ultimately plays out for the UK, to be looking globally outside the EU. And that will increase their interest in US properties as well, over time.

Greg: Cahal, we know there is a big difference in the way central banks in the US, Europe, and the UK are dealing with interest rates. Continued easing in Europe and the UK, with the US leaning the other way. Will this affect deal flow? And how?

Cahal: Great question. I mean, I think it's the first time we've seen a divergence between the banking system in Europe, the UK, and the US. So what you're finding out, when deals are being done ... And we've been involved in a lot of deals in the US where the parties involved have gone to Europe and the UK to get cheaper debt finance. So what you're finding in deals is the source of funding is changing, because we have a policy in the US where it looks like the interest rates are going to go up. And we've got a policy, very definitely, in terms of the UK and Europe, the interest rates are going to go down. And so far, that's going to affect itself around the debt markets and where the funding comes from.

Greg: And Cahal, you've said that you feel that there are overriding factors that continue to make the M&A corridor between the US and the UK strong.

Cahal: You have a common language. We have confidence in each other's governments and confidence in each other's legal systems. And if you believe that the UK is going to continue to trade with Europe, which I do, then the US should still see the UK as the beachhead into Europe.

Greg: I'm Greg Jarrett and thanks for listening to Deloitte M&A Views, sponsored by [Deloitte's M&A Institute](#). We release a new podcast once a month, 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](#). Until next time!

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