About this report
This report is the result of a survey of 1,000 executives to
gauge their expectations for M&A activity in 2017 and to better
understand their experience with prior transactions.

All survey participants work in either private or public
companies or private equity firms with annual revenues of $10
million or greater. The participants consist of senior executives
(director-level or higher) involved in M&A activity. One-third of
corporate respondents work in the C-Suite while half of private
equity respondents are involved in fund management.

For more detailed information about this report see:
*About this survey* (page 23)
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>03</td>
</tr>
<tr>
<td>Deal characteristics</td>
<td>08</td>
</tr>
<tr>
<td>Industry convergence</td>
<td>12</td>
</tr>
<tr>
<td>Headwinds</td>
<td>14</td>
</tr>
<tr>
<td>Impediments to success</td>
<td>16</td>
</tr>
<tr>
<td>Looking abroad</td>
<td>18</td>
</tr>
<tr>
<td>Strategic drivers</td>
<td>20</td>
</tr>
<tr>
<td>Cash is king</td>
<td>21</td>
</tr>
<tr>
<td>Meet the team</td>
<td>22</td>
</tr>
<tr>
<td>About the survey</td>
<td>23</td>
</tr>
</tbody>
</table>
Key findings

Deal activity
Seventy-five percent of all respondents expect deal activity to increase.

Deal size
Sixty-four percent of corporate survey respondents expect deal size to also increase.
Executive summary
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, US companies unleashed an unprecedented wave of deals, making it the busiest month 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, extending the increase in deal-making seen during the final months of 2016—and potentially reversing the slide of the early part of the year.

The executives we surveyed indicated several reasons for optimism. For starters, many report they have strong strategic imperatives driving their desire to do deals in 2017. Meanwhile, stock prices remain close to record-high levels, and interest rates, despite the forecast for an increase, remain near or at historic lows, and more companies say they have increased cash levels and intend to use their cash to strike more deals.
Key findings

Integration planning
Effective integration planning remains the number one factor to ensure that deals work.

Divestitures
Divestitures are likely to be a major focus in 2017. Almost three-fourths (73 percent) of survey respondents say they plan to shed businesses next year, up from 48 percent in our mid-year 2016 M&A Trends Report.
The survey data provides valuable perspective and a foundation for M&A expectations as we enter 2017. We will also continue to monitor the US presidential transition and potential implications for the M&A baseline established by the survey.

**Key findings include:**

- Seventy-five percent of all respondents expect deal activity to increase.
- Transactions may be bigger—64 percent of corporate survey respondents expect deal size to increase.
- Divestitures may be a major focus in 2017: Seventy-three percent of survey respondents say they plan to shed businesses next year. (Up from 48 percent in our M&A Trends Report of mid-year 2016.)
- Effective integration planning is considered the number one factor in ensuring that deals work.
- Acquiring technology assets has surged in importance as a top strategic driver of M&A.
- Industry convergence is a major theme, with consolidation rampant in related sectors. Many acquirers are looking to technology companies to position themselves for the future.

Optimism among executives is high. More companies say they have increased cash levels and intend to use their cash to strike more deals.
Key findings

Technology acquisition
Acquisition of technology assets surges in importance as a top strategic driver of M&A, tying for second with expanding customer bases and slightly trailing product or service diversification.

Industry convergence
Industry convergence remains a major theme, with consolidation rampant in related sectors and acquirers looking to technology companies, among others, to position themselves for the future.
These are only a few of the important insights uncovered in our latest survey. Inside, we take a closer look at other deal characteristics, the obstacles that could suppress deal activity in 2017, ongoing challenges in realizing the anticipated value of deals, and the outlook for deal making in foreign markets.

As always, our goal is to provide the insights you need to help make sure your next transaction is successful. Consider this report to be a foundation for your decision making today—and know that we are monitoring the impact of ongoing developments such as the US presidential transition and Brexit planning as they unfold.

Russell Thomson
National managing partner
Mergers & Acquisitions Services
Deloitte & Touche LLP
The vast majority of respondents project that 2017 will mark a rebound in M&A activity. Seventy-one percent of corporate respondents and 86 percent of private equity investors anticipate an uptick in transactions. An overwhelming majority of those surveyed expect activity to stay the same or ramp up, while only three percent foresee deal flow slowing in 2017.

Do you expect the average number of deals that your company closes to increase over the next 12 months?

Private equity investors

Yes 86%
No

Corporate

Yes 71%
No
**Volume**
Most expect deal volume to increase.

**Size**
Expectations are high for larger deals.

**Type**
Plan for an uptick in divestitures.
Volume
Overall, 23 percent of respondents anticipate a significant increase in deal volume in 2017—slightly more on the corporate side (24 percent) than private equity investors (20 percent). To put that in perspective, 60 percent of respondents say they closed at least six deals in the past 12 months, and 21 percent closed more than 11. The aggregate value of the deals closed in the past year exceeded $1 billion for about three in ten respondents (29 percent).

While the expectation for a significant increase in deal activity is split fairly evenly among corporations of all sizes, larger private equity funds significantly outpace smaller funds in anticipating a big bump in deal activity. More than 31 percent of respondents from private equity funds larger than $1 billion say they expect a significant increase, compared to only nine percent of those at funds smaller than $1 billion. Private equity respondents also expect a greater focus on bolt-on acquisitions to their existing portfolio companies in the next year (56 percent expect an increased focus on platforms with planned bolt-on acquisitions to build scale).

Size
Not only does the survey show that M&A activity is poised to rebound in 2017, but expectations are high for larger deals: 64 percent of current respondents say they anticipate the average size of transactions in 2017 will exceed the size of transactions in 2016. Ninety-seven percent believe that deal size will either be the same or increase in the year to come.

Do you expect the enterprise size of your firm’s deals to increase or decrease over the next 12 months?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>64%</td>
</tr>
<tr>
<td>Stay the same</td>
<td>33%</td>
</tr>
<tr>
<td>Decrease</td>
<td>2%</td>
</tr>
<tr>
<td>Not sure</td>
<td>1%</td>
</tr>
</tbody>
</table>

Do you expect the average number of deals that your company closes to increase or decrease over the next 12 months?

Private equity investors

Percentage of private equity investors who say they expect the average number of deals to increase significantly

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1 billion</td>
<td>9%</td>
</tr>
<tr>
<td>Over $1 billion</td>
<td>31%</td>
</tr>
</tbody>
</table>
Type
There's an even split among corporate respondents who say they will be seeking major, transformational deals and those seeking smaller strategic ones, with 27 percent of respondents picking one or the other. One in five respondents were on the fence, saying they'll respond reactively to any opportunities that arise.

Divestitures will be in vogue in 2017. Some 73 percent of both corporate and private equity respondents plan to sell units or assets in 2017, up from 48 percent reported in the mid-year 2016 report and only 31 percent in our 2015 M&A Trends report (when only corporate executives were surveyed on this question). Respondents are more certain of their plans; only six percent of all respondents say they are uncertain about plans to divest, down from 20 percent in 2015.

Respondents at corporations with more than $1 billion in revenue intend to divest at a higher rate (79 percent) than those with less than $1 billion (70 percent). Corporate respondents are most likely to divest primarily due to changes in their strategy (22 percent) and secondarily to reduce debt or raise capital (18 percent).

On the private equity side, more than half (55 percent) see strategic sales as the primary type of portfolio exit, with about 23 percent anticipating a sale to another private equity firm and 20 percent expecting to tap the public markets for an initial public offering to exit a position. Anticipated IPO exits have continued to decline since we first asked this question in 2015 (38 percent in 2015 and 32 percent in our 2016 mid-year survey).³

---

Do you expect your company to pursue divestitures over the next 12 months?

- Yes
- No
- Not sure

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20%</td>
<td>31%</td>
<td>49%</td>
</tr>
<tr>
<td>2016</td>
<td>11%</td>
<td>40%</td>
<td>48%</td>
</tr>
<tr>
<td>2017</td>
<td>6%</td>
<td>21%</td>
<td>73%</td>
</tr>
</tbody>
</table>
Survey results indicate that respondents are virtually unanimous in anticipating industry convergence as a continuing trend in the coming two years, with only one percent disagreeing.

Not surprisingly, technology is seen as the top sector for convergence, with 26 percent of respondents declaring it their top pick.

Why technology? As we’ll see later in this report, acquiring technology assets has surged to a virtual tie (with expanding customer base in existing geographic markets) for the number two spot as the main strategic driver for M&A, more than tripling in importance since our mid-year 2016 survey. In this survey, 29 percent of respondents expect technology and telecom providers to combine and 10 percent anticipate technology companies to converge with companies in professional services, energy and resources, media and entertainment, and manufacturing.

In addition to technology, respondents expect much of the convergence to happen in cross-related sectors. For example, roughly 84 percent of the deals in the life sciences and health care space will take place among life sciences, health care, and pharma companies.

Undoubtedly, digital disruption, changes in government regulation, and the continuous pursuit of growth will likely see this trend of industry convergence continue for the foreseeable future.
Which industries do you think will converge with technology in the next two years?

- **Telecommunications**: 29%
- **Professional services**: 10%
- **Manufacturing**: 10%
- **Media & entertainment**: 10%
- **Energy & resources**: 10%
- **Construction**: 8%
- **Retail & distribution**: 8%
- **Health care providers**: 4%
- **Asset management**: 2%
- **Banking & securities**: 2%
- **Health care plans**: 2%
- **Real estate**: 2%
- **Pharma/life sciences**: 1%
- **Insurance**: 1%
- **Not-for-profit**: 1%
Headwinds

While survey respondents were clearly optimistic about the potential for a surge in M&A activity, they also pointed to several factors that could thwart deal flow in the months ahead, including global economic uncertainty and higher deal multiples.

Global economic uncertainty tops the list of potential deal obstacles over the next 12 months, though fewer respondents cite this concern than in our prior survey. In our mid-year 2016 survey, 32 percent of corporate respondents cited global economic concerns as the number one obstacle to M&A activity, which has since decreased to 27 percent in the latest survey.

For example, though the verdict is still out on the impact of the United Kingdom’s vote to leave the European Union, respondents say that Brexit will actually drive transaction activity in both the United Kingdom (UK) and Europe rather than impede deal activity. Only 12 percent of all respondents anticipate fewer deals in the UK, and nine percent expect fewer deals in Europe in the coming year as a result of Brexit; 46 percent foresee Brexit spurring accelerated deal making in the UK, and 48 percent see it triggering more deal activity in Europe.

How has Brexit (Britain’s vote to exit from the EEC) impacted your M&A strategy?

- More deals
- No impact
- Fewer deals

What are the likely influences on your company’s ability to pursue, finance, and close deals in the next 12 months.

<table>
<thead>
<tr>
<th>Influence</th>
<th>Corporate</th>
<th>Global market uncertainty</th>
<th>Interest rate environment</th>
<th>Anti-trust issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall 2016</td>
<td>27%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid-year 2016</td>
<td>32%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Other obstacles that could impede the flow of deals include volatility in the capital markets, which ranks second among corporate respondents (20 percent of corporate respondents), followed by deal valuations. Given historically high valuation multiples, it was surprising that 40 percent of respondents say that deal price multiples will be stronger both for private and public transactions—with significantly higher responses (47 percent) on the private equity side.

Interestingly, corporate CEOs and operating partners are more focused on anti-trust and interest rate concerns as potential obstacles to deals than other executives. These top executives are less concerned with valuation than executives in supporting finance roles. We will continue to watch this area as the new US presidential administration takes office.

Interest rates are another potential obstacle to a company’s ability to pursue and finance deals, though the level of concern fell from 21 percent of the respondents in the mid-year 2016 survey to 17 percent in this survey. Anti-trust issues were less of a concern (moving from 12 percent to eight percent in the recent survey), though respondents at private equity firms larger than $1 billion cite anti-trust issues nearly four times more than respondents at firms below that threshold.
Impediments to success

Most respondents (84 percent) say at least some of their 2015 and 2016 deals didn’t generate the expected value or return on investment.

The technology, media & telecommunications sectors expresses the most disappointment over deal performance—about 91 percent of survey respondents say deals did not yield the expected value or return on investment within the past two years. The manufacturing industry followed just behind at 86 percent. Overall, about 75 percent of corporate respondents say deals fell short of expectations.

Respondents note a host of factors to account for deals that didn’t live up to expectations.

What is the biggest impediment to achieving a successful M&A transaction for your company?

- Insufficient due diligence process: 88% (2015), 83% (Mid-year 2016), 78% (Fall 2016)
- Improper target identification: 79% (2015), 71% (Mid-year 2016), 71% (Fall 2016)
- Not valuing the target accurately: 81% (2015), 77% (Mid-year 2016), 71% (Fall 2016)
- Changing regulatory and legislative environment: 61% (2015), 71% (Mid-year 2016), 78% (Fall 2016)
- Failure to effectively integrate: 74% (2015), 78% (Mid-year 2016), 78% (Fall 2016)
About 20 percent point to the economy (manufacturing firms and energy companies feel the hardest economic pinch in relation to their transactions). After that, they cited (in order): expected sales not materializing, market or sector forces, and execution and integration gaps.

Effective integration remains the top-ranked factor by corporate respondents in achieving a successful M&A transaction, with about 23 percent ranking it as the most important driver. This category has consistently maintained one of the top two spots in the past three surveys. Accurately valuing a target and economic certainty tie for the number two spot. Due diligence remained an important factor.

Technology firm respondents feel more strongly than others about execution and integration gaps being the main reasons for underperformance in deals.

### What is the most important factor in achieving a successful M&A transaction for your company?

- **Effective integration**: 22%
- **Economic certainty**: 19%
- **Accurately valuing a target**: 19%
- **Proper target identification**: 17%
- **Sound due diligence process**: 12%
- **Stable regulatory and legislative environment**: 11%
Looking abroad

For US-based investors, 2017 is likely to be a year of globe-hopping. More respondents are looking for M&A deals abroad than in prior years, and they are focusing on a select cluster of countries and regions.

More than 90 percent of respondents say that at least some of their company’s M&A deals will involve acquiring targets operating principally in foreign markets—up from 77 percent in our mid-year 2016 survey. Almost four in 10 say at least 40 percent of their targets will be domiciled abroad—up from about 31 percent recorded in our mid-year 2016 report.

Canada ranks first among foreign markets poised for transactions, with 40 percent citing it as a target market. The UK ranks second, with 31 percent. China rounds out the top three, with one quarter of respondents hoping to pursue deals in the world’s most populous nation. Japan jumps to the number four slot with a survey reading of 24 percent, a single percentage point behind China.

It is worth noting that among private equity respondents, the UK was the most attractive foreign market with 40 percent of respondents choosing the region compared to 29 percent of corporate respondents.

Looking ahead, energy and resources companies have the strongest appetite for international deals. Among 24 international markets included in the response choices, energy and resources was ranked as the number one most likely sector for M&A growth in 17 of those markets; with 56 percent of firms looking to Canada for opportunities while 44 percent target Australia.
Top five markets for outbound deals

1. Canada
   - 2015: 22%
   - Mid-year 2016: 24%
   - Fall 2016: 40%

2. United Kingdom
   - 2015: 21%
   - Mid-year 2016: 21%
   - Fall 2016: 31%

3. China
   - 2015: 24%
   - Mid-year 2016: 24%
   - Fall 2016: 25%

4. Japan
   - 2015: 14%
   - Mid-year 2016: 14%
   - Fall 2016: 24%

5. Europe (excluding UK, Germany, France, Italy, Spain)
   - 2015: 16%
   - Mid-year 2016: 16%
   - Fall 2016: 22%
With respect to your company’s M&A strategy over the next 12 months, what is the most important?

- **Expand / diversify your products or services**
  - 22%

- **Expand customer base in existing geographic markets**
  - 19%

- **Technology acquisition**
  - 19%

- **Enter new geographic markets**
  - 14%

- **Pursue cost synergies or scale efficiencies**
  - 9%

- **Obtain bargain-priced assets**
  - 8%

- **Talent acquisition**
  - 8%
Cash is king

Over the past several years, corporate cash reserves have consistently increased; 65 percent of survey respondents (up from 58 percent in the mid-year 2016 survey) said their cash reserves have grown.

These responses are consistent with overall US reserves, where cash balances for the S&P 500 (excluding financial companies) stood at $1.456 trillion at the end of the second quarter of 2016. That balance marked the second-largest cash hoard in at least 10 years, and the only time corporations (ex-financials) had more cash in recent times was the first quarter of this year.

What do companies plan to do with all that cash? According to the survey, corporations will primarily seek merger and acquisition opportunities (43 percent).

Forty-three percent of corporate respondents, up from 30 percent in the mid-year 2016 and 26 percent in 2015, say the leading use for their cash is new deals. In contrast, in the mid-year 2016 survey, 35 percent of respondents said they would use their cash to invest in their businesses.

Back in 2015, organic investments were far more popular than seeking M&A opportunities (45 percent to 30 percent). Now the opposite is true—corporations favor M&A deals over organic investments by almost 50 percent.
Meet the team

Russell Thomson  
Partner  
Deloitte & Touche LLP  
rthomson@deloitte.com

Trevarr Thomas  
Principal  
Deloitte Consulting LLP  
trethomas@deloitte.com

Mark Garay  
Managing Director  
Deloitte Services LP  
mgaray@deloitte.com

Follow us on Twitter @DeloitteMnA


Subscribe to receive M&A thought leadership:  
www.deloitte.com/us/masubscribe
About the survey

From September 12-20, 2016, OnResearch, a market research firm, conducted a survey on behalf of Deloitte and polled 1,000 executives—750 at US-headquartered corporations and 250 at domestic-based private equity firms, to gauge their expectations for M&A activity in 2017 and better understand their experience with prior transactions.

All survey participants work in either private equity firms, or private or public companies with annual revenues of $10 million or greater. The participants consist of senior executives (director-level or higher) involved in M&A activity. One-third of corporate respondents work in the C-Suite.

The corporate respondents represent 18 industries, with technology, professional services, construction, banking and securities, and industrial and consumer products accounting for roughly half the total in aggregate. Most of the corporate respondents (63 percent) work at private companies. Forty one percent of respondents work at organizations with less than $500 million in revenue and 35 percent are at companies valued at $1 billion and over. The remaining 25 percent are in the middle.

On the private equity side, there is also a wide distribution; 31 percent control funds larger than $3 billion, while 30 percent are below $500 million and the remaining 39 percent consist of medium sized funds between $500 and $3 billion in size. Half the private equity firms have 20 or more companies in their portfolio, and nearly three-in-ten had more than 40.
Endnotes

3. This survey offered a new response option of “sale to another private equity firm.”
4. This survey was administered in September, prior to UK High Court ruling that Parliament must give its approval before the Brexit process can begin. http://www.nytimes.com/2016/11/04/world/europe/uk-brexit-vote-parliament.html