



**Deloitte M&A Views podcast:
Future of the deal: Winds of change**

Transcript

Greg Jarrett: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. I'm Greg Jarrett. Today, we discuss the future of the deal and what changes we might anticipate. We're joined by Iain Macmillan, the global leader for M&A and M&A transaction services. Also, Larry Hitchcock, a principal with the Merger and Acquisition Consultative Services practice with Deloitte Consulting LLP.

Greg Jarrett: Let's get right to it, gentlemen. The title of this report is *Future of the Deal: Winds of change*. That could be a best-selling novel, but Iain, what's the meaning behind that title?

Iain Macmillan: Well, at its heart it's that we've seen an unprecedented bull run in M&A markets. We've had five years of annual deal values over the 3 trillion-dollar mark, and indeed in the first half of 2019 nearly two trillion dollars' worth of deals have been announced, and we think that's probably a record for the first half of any year, and indeed that spate of mega deals continues. Eight hundred billion dollars' worth of mega deals have been announced in the first half of 2019, which is definitely a record, and the US is dominating that segment, accounting for 21 out of 25 of those announced deals so far this year. Now, whilst the US has been dominating, the rest of the world is a little bit more muted, and in particular in Europe, where deal flows are actually down by 56 percent compared to the first half of last year, and that reflects both some economic uncertainty, and in particular some events such as Brexit, which are clearly on the horizon, affecting investment decisions.

Iain Macmillan: So, overall, we actually remain fairly cautious for the rest of the year. We've got economic uncertainty continuing to prevail. We've got the looming threat of trade wars. We've got some political tension, such as Iran, which were already having a knock-on effect in terms of oil prices, and it is noticeable that, in terms of all stock deals, around 30 percent of deals so far this year have been all stock, which is a rise from 19 percent from last year, which typically happens when there's a slightly more bearish outlook, and indeed, year on year, there's been a decline in volume for the first time in deals since 2014. So, to summarize, we definitely feel that there is some change out

there. It's been a very strong market for a long time, but there are some headwinds to watch out for, and indeed some tailwinds to consider.

Greg Jarrett: Thanks, Iain. Larry, can you talk with me a little more about the headwinds and tailwinds that you are seeing?

Larry Hitchcock: We need to look through the winds that are in the near horizon, and look beyond that too, and, you know, M&A in its various forms I think remains an attractive option. It's a bold capability as you expand into new products and geographic markets, especially when you compare it to Greenfield, ways of trying to develop the same areas, but turning then to the headwinds and the tailwinds, you know, there's a bit of political uncertainty in the world, which certainly gives the client investor pause. There's some trade tensions that have been episodic and, certainly weigh heavily on the minds of dealmakers. There's been some slowdowns in the economies and M&A activity that Iain mentioned earlier I think follows that.

Larry Hitchcock: As we look ahead, the US elections also bear on people's tendency to do deals and historically election years have seen less deal volume than the periods preceding and following those. There's also been regulatory pressures, as Iain mentioned, a lot of large deals have taken place in the US, not all of those have received regulatory approval quickly, and some are still caught up in regulatory review. So, as you think about some of the headwinds our clients face, those would be some that come to mind for me.

Greg Jarrett: How about tailwinds? Is there a tailwinds story here, Iain?

Iain Macmillan: So there are some very positive tailwinds out there. You know, probably the biggest out there is private equity, you know, that has been a phenomenally strong force in M&A markets and they remain a very significant power. There's over one trillion dollars' worth of dry powders to invest, and indeed they had their best single year last year since the financial crisis and continue to invest strongly in 2019.

Iain Macmillan: Over and above that, companies themselves are sitting on nearly four trillion dollars' worth of cash reserves, and that enables them to raise record levels of funding for M&A, either from the debt markets themselves or utilizing some of that cash. And you still have in the US companies riding on a boost from tax reforms, which with underlying very strong corporate performance. Elsewhere, we see Japan very, very active, filling the gap that China left in cross-border deals, which actually drove a 25 percent increase in cross-border deals so far. One of the really significant drivers we've seen outside of the US has been the growth of activism. And these hedge funds are driving significant M&A activity, in terms of non-core divestments, which are totaled nearly 300 billion dollars since 2012. And the final big tailwind I would highlight is around disruptive technology, so the impact of businesses looking for new innovation, the impact of cross-industry conversions. They're all driving a type of M&A that sort of has its heart around innovation, that is explosive right now, with nearly \$900 billion in acquisitions in that area since 2015.

Greg Jarrett: Iain, while you were talking about tech and disruption, I couldn't help but think about tech and new regulations. Is this something that might weigh on M&A activity for tech?

Iain Macmillan: It could go either way, let's be clear. I mean it could actually fuel a spate of divestment activity, and carve outs, etc. On the other hand, I think probably the bigger driving force is the unrelenting pace of change in disruption that is out there. And I think one of the interesting things is how you're now seeing fairly traditional businesses, you know, we were helping an industrial business acquire a data analytics business a couple of months ago. So that's a very different type of acquisition. That requires a whole different type of thought process around valuation, around integration, around the types of people that are coming into the business. And, those are fundamental moves that clients are having to take now as they see this changing environment around them and trying to respond to that very, very quickly.

Greg Jarrett: Well, we've heard a lot about tailwinds and headwinds, but what's the final takeaway? Is M&A headed for smooth sailing and following seas, Larry? Or should we batten down the hatches?

Larry Hitchcock: I think we're going to continue to see M&A activity, although the forms may vary and change. You know, Iain just talked a bit about the disruptive technologies and the blurring of industry lines, but we're seeing, you know, that leads to different forms. It could be alliances, it could be joint ventures, it could be phase sales. So, I feel like we're going to continue to see good levels of M&A activity, but maybe in some different forms.

Greg Jarrett: And Iain, what do you think about that question? Smooth sailing or rough seas?

Iain Macmillan: I think you've got to remember M&A is a very significant investment and therefore, by definition, it's a long-term decision process. I think it's still going to be fairly robust. I would definitely agree with Larry, the types of acquisitions, in terms of growth-oriented deals, will be significant. There also, I think, with some of those headwinds out there, there will be more of a focus on value generation. So people will be looking at reassessing their business portfolios, that could certainly drive significant divestment activity. I mentioned activism earlier, I think there'll be a lot of rapid turnaround interventions, again driving M&A, to ward off activists, sometimes that's to acquire high-growth businesses.

Iain Macmillan: We will definitely see the use of advanced analytics and digital tools changing the way that M&A is done, and really helping our clients to understand where they can achieve value, driving more thorough diligence and a slightly longer holistic look at the end-to-end M&A process. In an environment which is itself a little bit more complex, there'll certainly be more thinking around mitigating risk, as well as just absolutely optimizing the integration process.

Greg Jarrett: Iain and Larry, you've certainly provided a lot for me and our listeners to consider as we move into the next phase of M&A deals. I'm Greg Jarrett. Thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. This podcast is provided by Deloitte and is intended to provide general information only. This podcast is not intended to constitute advice or services of any kind. For additional information about Deloitte, go to deloitte.com/about. We also release new podcasts regularly, and if you subscribe, you won't miss a single one.

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