

A seller's market is set to continue after a big year for M&A

Cross-border activity increases as the economic recovery gains more traction in developed economies

The total value of merger and acquisition (M&A) activity was a very buoyant \$3.8trillion in 2015. But the latest Grant Thornton IBR data shows that transaction confidence on both buy and sell side has taken a knock because of global economic instability – particularly in Asia Pacific. We have also seen a rise in the proportion of transactions made up of cross-border deals as acquirers seek to use M&A to enter new markets. And so those looking at future M&A activity will need to understand sentiment in the M&A market and how this is affected by global economic trends in order to create value for their business.

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The M&A outlook for 2016 and beyond

Despite 2015 being a busy year for M&A activity globally, Grant Thornton's survey of international business leaders in 36 economies found that the number of respondents who plan to make an acquisition over the next three years remained the same as 2014, at 33%.

However, the regional picture is more varied (see figure 1) due to the differing macroeconomic conditions. ASEAN (Southeast Asian Nation) countries are showing acquisition appetite with many affluent investors looking for lucrative overseas deals. Singapore's profile as an Asia Pacific (APAC) technology hub has also strengthened the region's position in the global market.

But India and China, countries which have fuelled recent Asian M&A activity, both reported significantly lower propensity to acquire for future growth at 7% and

12% respectively. This signals some pessimism among businesses regarding future growth prospects and their ability to fund an acquisition. The slowdown in India and China is having an impact in other regions looking to sell companies to Indian and Chinese investors.

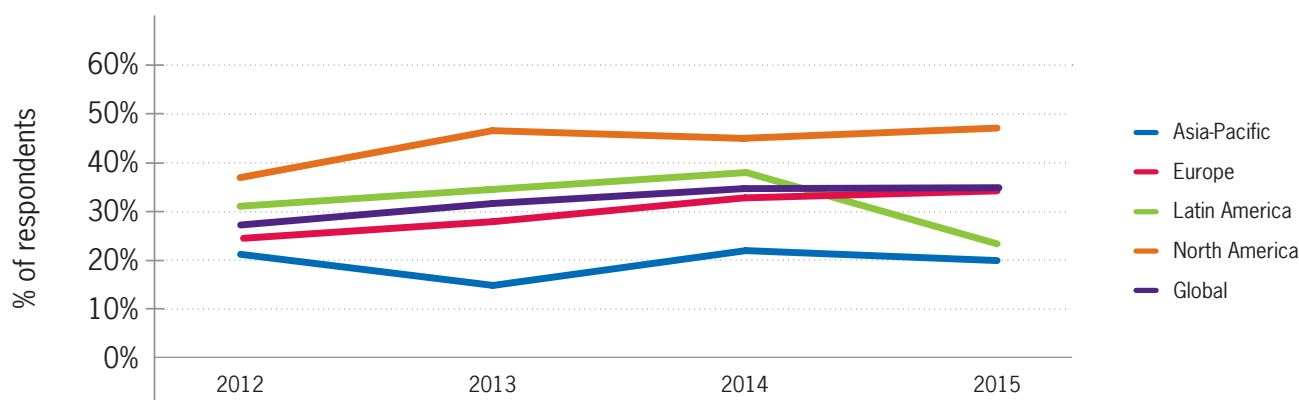
Western business thinking reflects the relative strength of western economies. Their recovery is bolstered by cheap sources of funding and strengthening national currencies. In North America, while there was a 6% decrease in those considering an acquisition over the past 12 months, over 48% of companies remained confident that they would fuel growth through acquisition in 2016. And EU countries also appeared optimistic, with 36% of businesses considering

an acquisition.

Latin America fell by 16%, but this was expected given that the region has been hit hard by low credit scores, currency devaluations and lack of financing. The resulting economic uncertainty adds to the situation and contributes to the current slow growth environment.

Interestingly, Paulo Funchal, transaction advisory services partner at Grant Thornton Brazil says "M&A activity in 2015 in Brazil was significantly lower than 2014, with foreign buyers representing almost half of the deals". The weak Brazilian Real is likely to be contributing to an increase of foreign cross-border deals. Paulo added: "the current economic climate in Brazil is conducive to foreign buyers seeking to make strategic acquisitions. 2016 will mark a turning point within the market and will benefit investors who have long term horizons."

FIGURE 1: Do you plan to grow through M&A over the next three years?



Source: Grant Thornton IBR Survey, Q4 2015

Taking a strategic approach to acquiring

For acquirers seeking to buy in depressed economies, there are a range of opportunities. But turnaround for many of these economies is slow and they will continue to face challenges in the near-term. And so rather than seeking quick returns, acquirers need to take a mid-term view, looking at how an acquisition supports their business strategy.

We found that the main driver of companies' future acquisitions was to enter new geographical markets (see figure 2) and this explains the marked rise in the proportion of cross-border

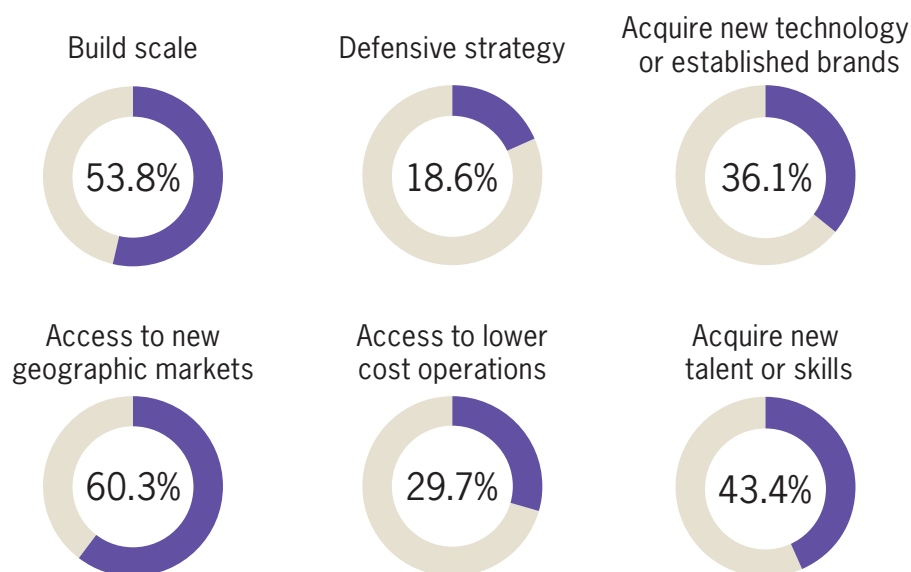
deals. This was especially true for North American-based businesses where the strength of the American economy and dollar, coupled with significant cash reserves and relatively low costs of financing transactions make it an attractive option.

Businesses in emerging markets are more likely to engage in cross-border M&A activity to leverage new technology or for increase brand recognition. Whereas, southern European businesses are more likely to engage in acquisitions as a defensive measure against hostile takeovers.

Acquiring new talent or skills is also a main driver for businesses across all regions. It reflects the fast pace of technological progress and a lack of such skills internally.

Take a mid-term view: Assess how an acquisition will support your business strategy rather than expect a quick return

FIGURE 2: What are the key drivers behind your plans to grow through acquisition?



Source: Grant Thornton IBR Survey, Q4 2015

It's still a seller's market

Despite cheap sources of funding and increasing propensity to acquire in some regions, vendor confidence slipped 5% globally in 2015, signalling fewer tangible selling opportunities. This sets the stage for increasing valuations as the disparity between supply and demand widens.

The recognition that better valuations are ahead may be contributing to the 5% decline in businesses expecting a change in ownership in the near future. As a result, the difference between future acquisition demand and supply is 24%, further signalling favourable market conditions for sellers.

Having a growth strategy is key to creating and enhancing shareholder value. The identification of opportunities that provide strategic fit is a prerequisite to achieving successful long-term growth.

However, many are grappling with the pressure from competition and financial investors to make strategic acquisitions in an environment where quantitative easing is driving up premiums for promising targets, particularly in developed regions.

Businesses should consider acquisition as a route to accessing new markets, recruiting new talent and skills into their firm and building scale to grow - as long as those opportunities support their middle and long-term strategic goals rather than a short-term objective of speedy financial return.

Strategic growth decision making

Our global team of M&A specialists can help any business throughout the transaction process and beyond. We ensure that the best outcome is achieved and that any decision made supports the attainment of a business's long-term strategic goals.

To find out more about how the team can help you with your next merger or acquisition, please contact Kai Bartels (kai.bartels@wkg.com)

IBR 2015 methodology

The data in this report are drawn from interviews with more than 2,500+ chief executive officers, managing directors, chairmen and other senior decision-makers in mid-market companies across all sectors conducted between September and November 2015.

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