M&A: the bulls are back in town

Richard Dunbar
Deputy Head of
Global Strategy –
Investment Solutions

The world of mergers and acquisitions (M&A) enjoyed a frenetic burst of activity in 2014. Transactions reached $2.8 trillion in the first nine months of the year, a rise of 34% on the same period last year and the highest volume during this period since the heady days of 2007, according to Dealogic.

Healthcare, telecoms and real estate led the way, with an average deal size of $426m, $1.0bn and $241m respectively. So the poor investment bankers who have not had a Christmas for the last seven years have had a better time of things. But what is driving this and should the City's dealmakers be ordering in more champagne for 2015?

One of the driving forces behind the rise in dealmaking is that companies are awash with cash. US firms hold almost $2trillion of the stuff. Perhaps the recent desire to hoard folding ones should not have surprised us – the drying up of credit from banks and bond markets is still fresh in the minds of most company executives. A desire to be a little more independent of, what turned out to be, unreliable partners in the provision of capital is perhaps prudent. However, 2014 certainly saw finance directors loosening the purse strings.

There has also been real evidence of a pick-up in the fortunes of the US economy, a recovery that has been a long time coming. An uncertain economic outlook will, not surprisingly, have led to more caution in boardrooms. A steadier outlook for the world's largest economy has undoubtedly reduced the fear among executives that an economic downturn might make their M&A sprees suddenly look foolish. The US economy should continue its recovery. If this confidence takes hold, this nascent rise in boardroom confidence could well continue into 2015.

When it comes to M&A, company executives are as susceptible to the latest fad as any teenager. This often leads to an obsession with a particular sector. If one company heads off along the acquisition trail, its contemporaries often follow. And so in the revenue-challenged healthcare sector, M&A became the 'strategie du jour'. GSK, Novartis, Pfizer, Valient and AbbVie to name but a few, all embarked on transactions which, they assured us, would be value enhancing to their shareholders. This sheep-like (or lemming-like!) trend will certainly continue in 2015.

So which sectors might prove susceptible to the siren songs of the investment bankers in 2015? Revenue challenges may tempt some in the defence and oil sectors to buy some revenue and cut some costs. Perhaps even the banking sector, as it sees more capital and regulatory certainty, may see some activity. One certainty for 2015 is that the social media sector will continue to see deals at prices that I will leave to the connoisseurs, with more vision than I in this 'specialist' area, to justify.

Of course as we tip toe into 2015 we should remember that we have yet to see an M&A presentation by company management that did not promise nirvana for the acquiring shareholders. But the academics, and indeed painful experience, remind us that it will be the minority that take us to this heavenly plane. My most confident forecast is that the need for caution will not feature prominently in the bullish investment banking presentations being readied for their clients' January board meetings.

Aberdeen

The value of investments and the income from them can go down as well as up and your clients may get back less than the amount invested

Aberdeen Asset Managers Limited
Bow Bells House, 1 Bread Street, London EC4M 9HH
Telephone: +44 (0)20 7463 6000 Fax: +44 (0)20 7463 6001
aberdeen-asset.com

Registered in Scotland No. 82015. Registered Office 10 Queen's Terrace, Aberdeen AB10 1YG
121017370_M&A

Aberdeen