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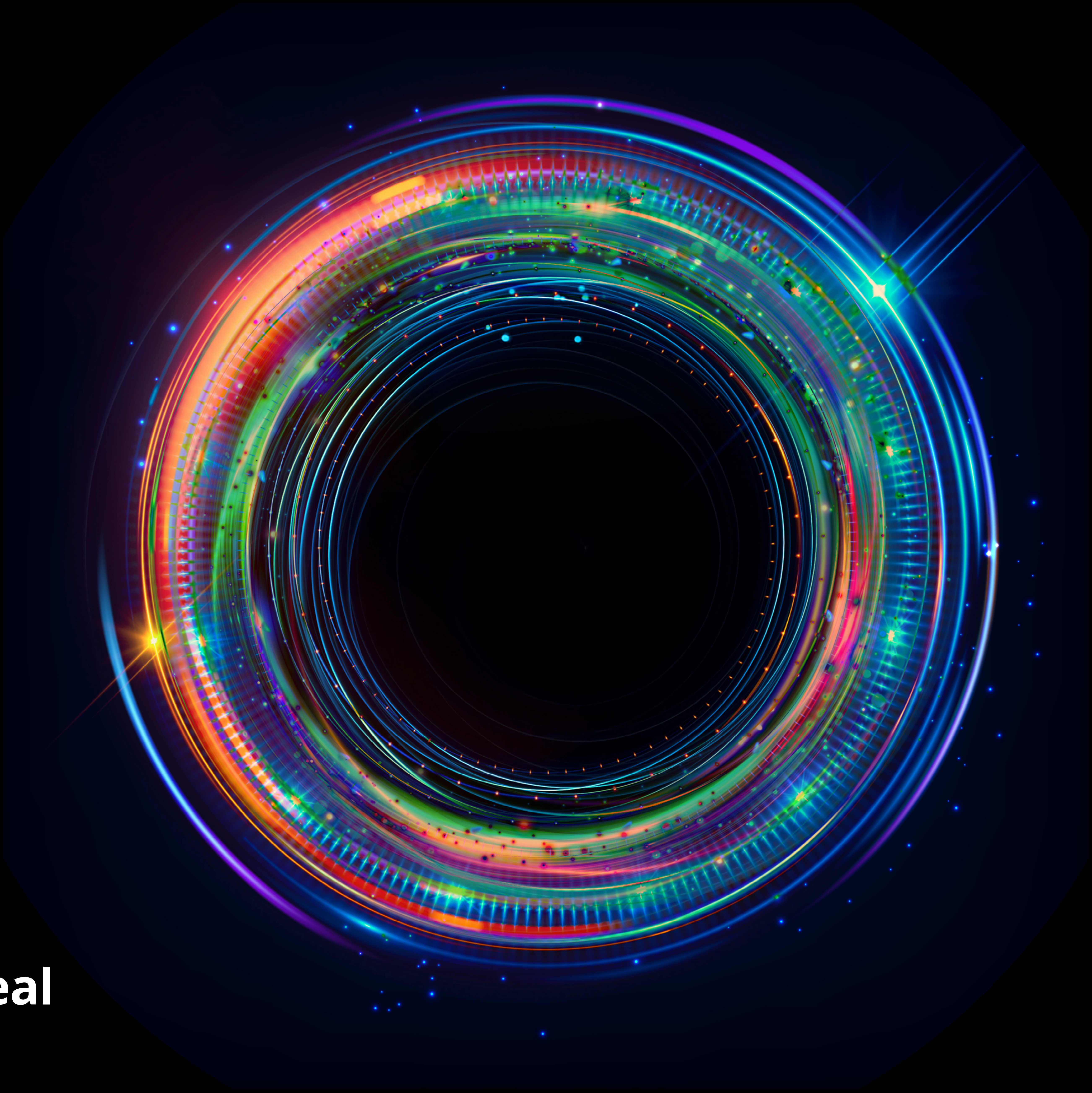


# The state of the deal

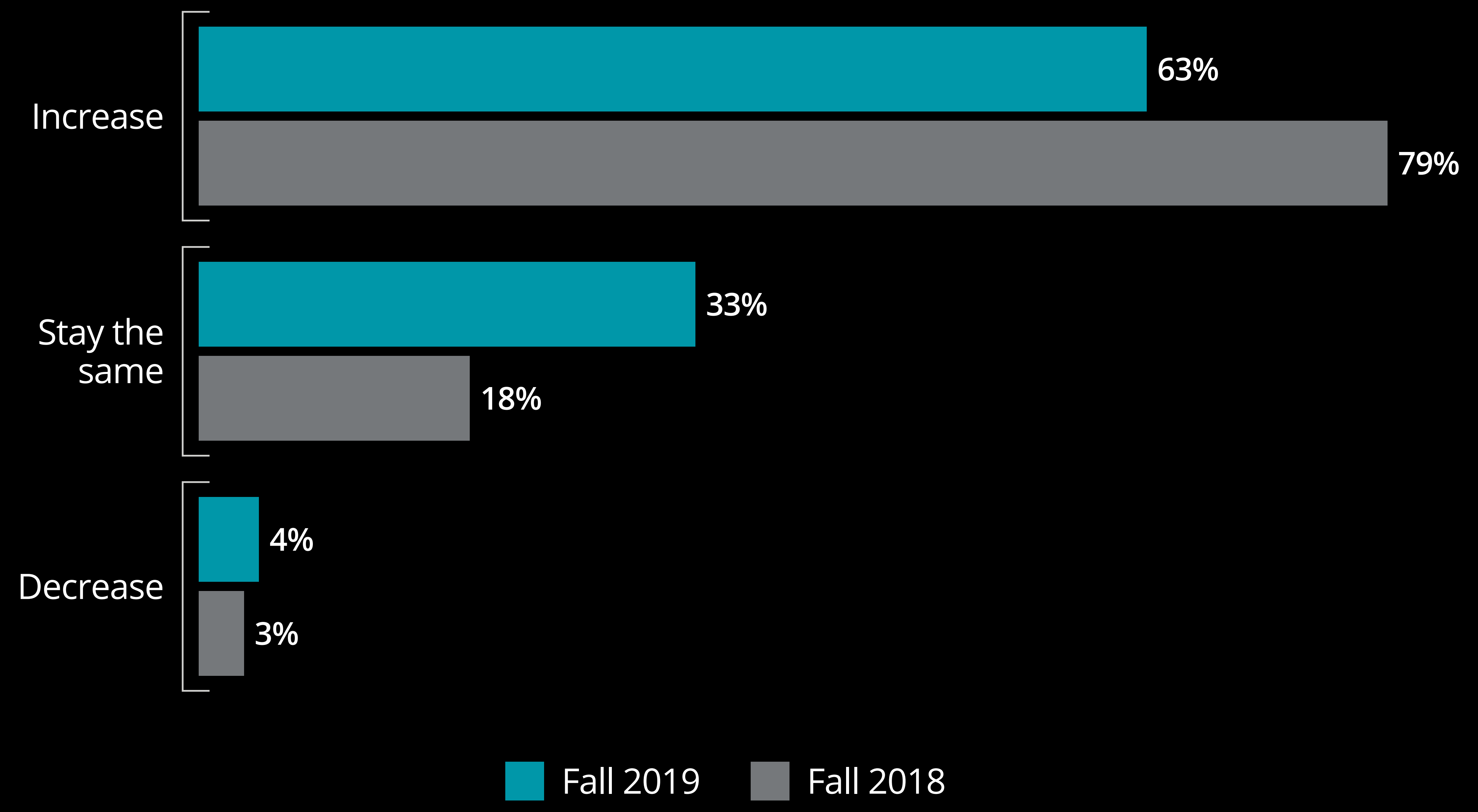
M&A trends 2020

# Executive summary

Dealmakers anticipate merger and acquisition (M&A) activity will continue at an active pace in 2020, extending the prolonged boom in dealmaking that has resulted in more than $10 trillion in domestic transactions since 2013.[1] Our *2020 M&A Trends* survey reveals clear and strong signals that deal making will continue, with just 4 percent of respondents forecasting a decline in the number of deals in the next 12 months. And, only a sliver of our survey respondents (2 percent) anticipate a drop-off in deal size in the year ahead.

In Deloitte's seventh *M&A Trends* report, we gleaned insight from 1,000 executives at corporations and private equity investor (PEI) firms about current deal activity and expectations for the next 12 months. Survey results reveal some moderation in transaction activity expectations, with 63 percent of respondents saying transaction activity will increase somewhat or significantly, down from 79 percent a year earlier. More muted enthusiasm seems natural at this stage in the M&A cycle, following seven years of heady growth and record-setting activity.

**Deal volume expectations**



Other trends worth focusing on in the year ahead emerged from our survey, including:

- Divestitures remain an important fixture of M&A—driven both by organizations seeking to cash in on high valuations and those aiming to reposition assets in advance of a downturn. If the economy falters, divestitures could become even more active.
- Data protection and related regulations, along with shareholder activism, are among the emerging issues impacting M&A strategy and activity. We're also seeing active board involvement, as directors lean in to monitor whether deals are meeting expectations.
- Dealmakers expect to increasingly focus on domestic transactions in reaction to persistent concerns about political and trade instability.
- Despite the strong deal environment, some transactions continue to fall short of generating their expected value or ROI, with more respondents saying a portion of their deals failed to generate expected value compared to last year's results. Despite private equity's focus on value creation and corporations improving integration planning, some deals are just not delivering at the rate they should and could be. Most cite outside factors—the economy, market or sector forces, and regulatory uncertainty, including tariffs—as reasons why deals don't achieve the intended ROI. Some respondents concede that sales didn't materialize, or integration execution wasn't as strong as it could have been.

In addition to these trends, there are other factors fueling the deal-making boom. Both corporations ($1.55 trillion[2]) and PEI firms have ample cash reserves to finance deals. Stocks closed 2019 near record highs, making equity-funded transactions attractive. And while there are concerns about the impact of tariffs on deals (a topic that surfaces multiple times in this report), over half of respondents felt that the current interest rate environment either accelerated (45 percent) or had no impact (9 percent) on their willingness and ability to do deals currently and over the next 12 months. As a result, there are expectations for M&A activity to remain robust in the months ahead.

Of course, even in good times, not every year will surpass the one that precedes it, and 2019 presented some challenges in the deal-making environment. There was a double-digit percentage drop in the number of US deals compared to 2018, and aggregate value declined about 2 percent,[3] though the average transaction size increased.[4] While 2019 might not have lived up to the most optimistic predictions, deal making was still robust by historical standards, with US annual deal value in 2019 ranked as the third highest of the past two decades.[5]

As always, our hope with this year's *M&A Trends* report is to provide you with expectations for the year ahead—along with insights into what's driving activity and the critical factors impacting deal value. As we look back at the past seven *M&A Trends* reports, we remain committed to providing you with insights and perspective to help make your next transaction successful.

**Russell Thomson**
National managing partner
Mergers & Acquisitions Services
Deloitte & Touche LLP

# 2020 vision: Volume, value, and type of transactions

Expectations for M&A volume over the next 12 months have moderated slightly from a year earlier, but are still relatively strong. The tempered forecasts from survey respondents appear to be a natural progression, following seven years during which annual deal value surpassed the $1 trillion mark each year.[6] It's important to stress that, in general, survey respondents do not expect deal value or volume to decrease significantly. They still see major drivers that should stoke volume—divestitures remain popular, and there's anticipation of a strong pace for PEI-to-PEI transactions.

## Volume

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

Almost two-thirds of respondents (63 percent) foresee deal activity increasing over the next 12 months—down from last year when 79 percent said the number of deals would increase.

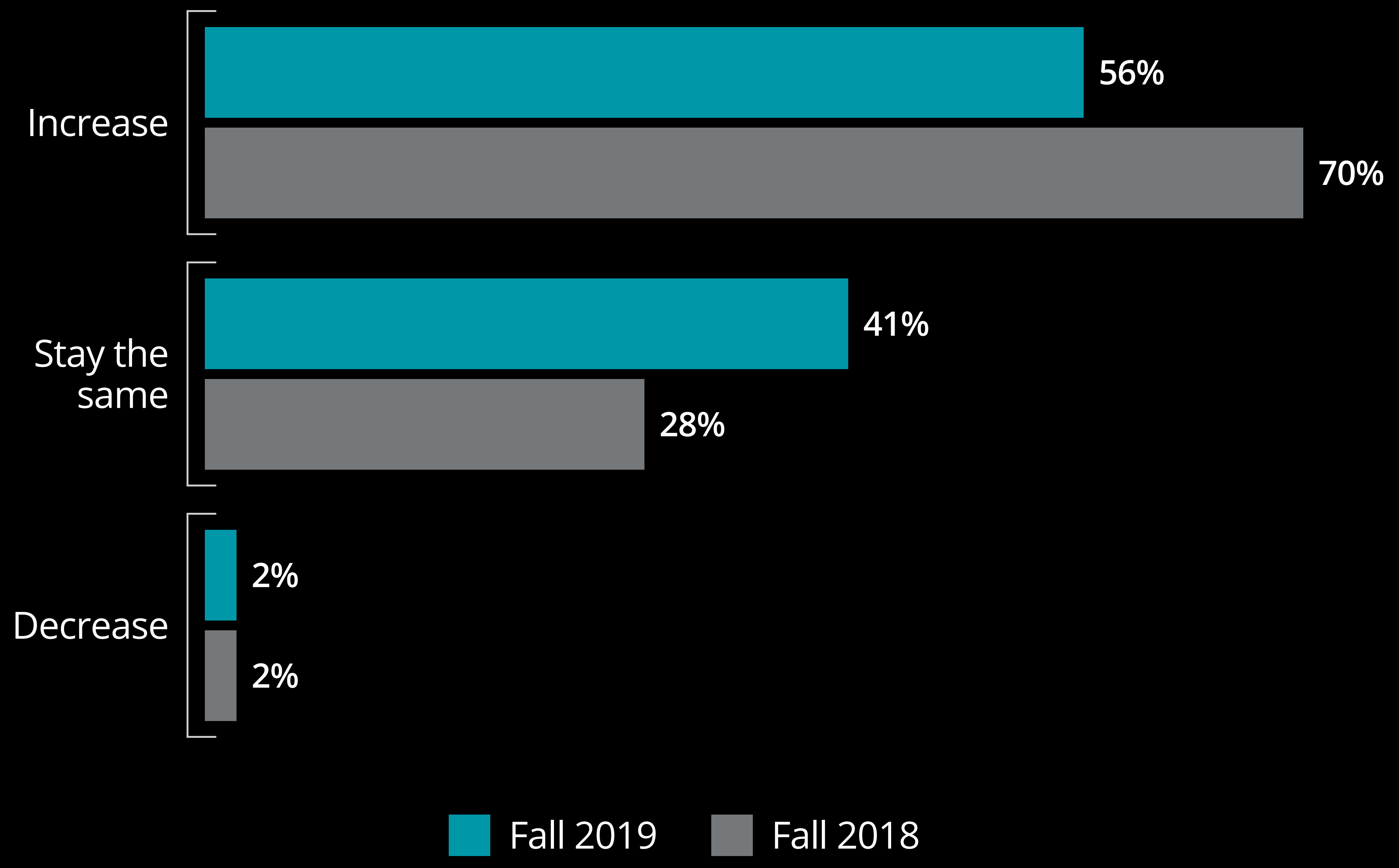
63%

4%

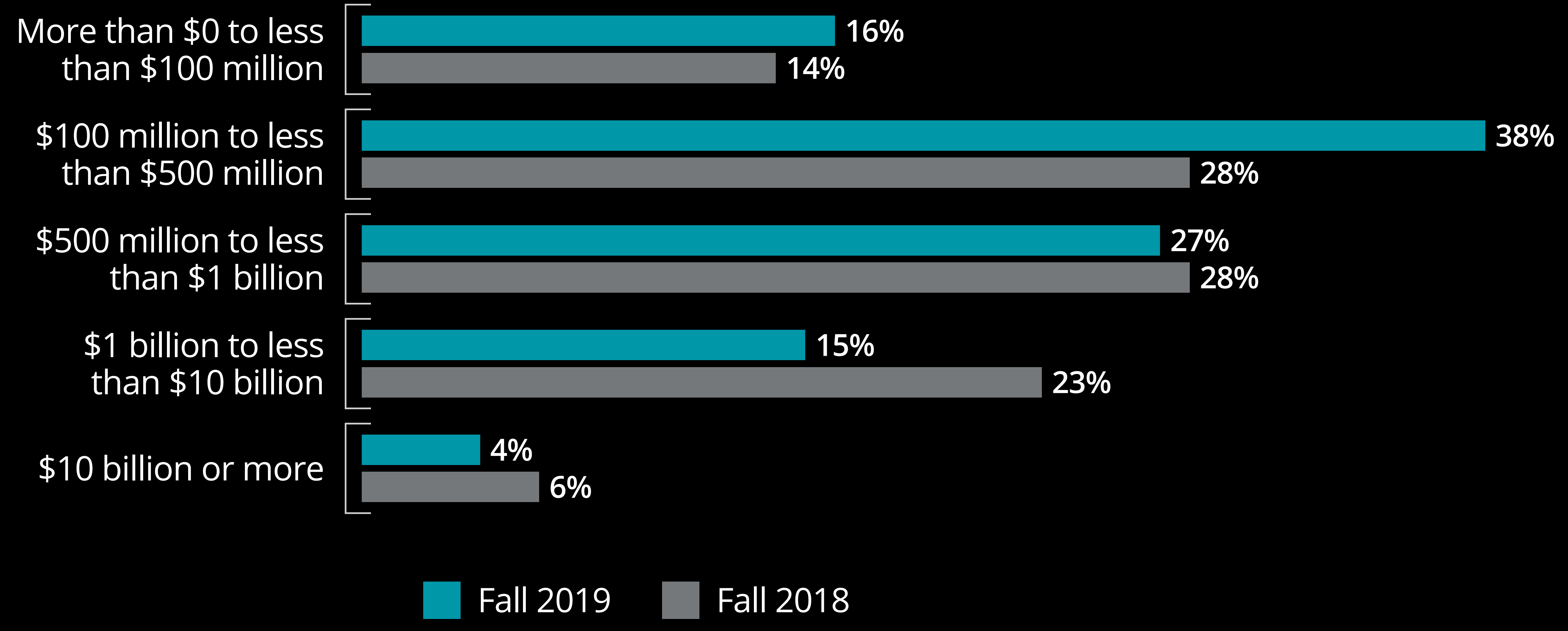
Importantly, only 4 percent of respondents predict deal volume will decrease over the same period of time.

## Value

### Deal value expectations




### What is the total annual dollar value (aggregate enterprise value) of all the deals your company completes in a typical year?



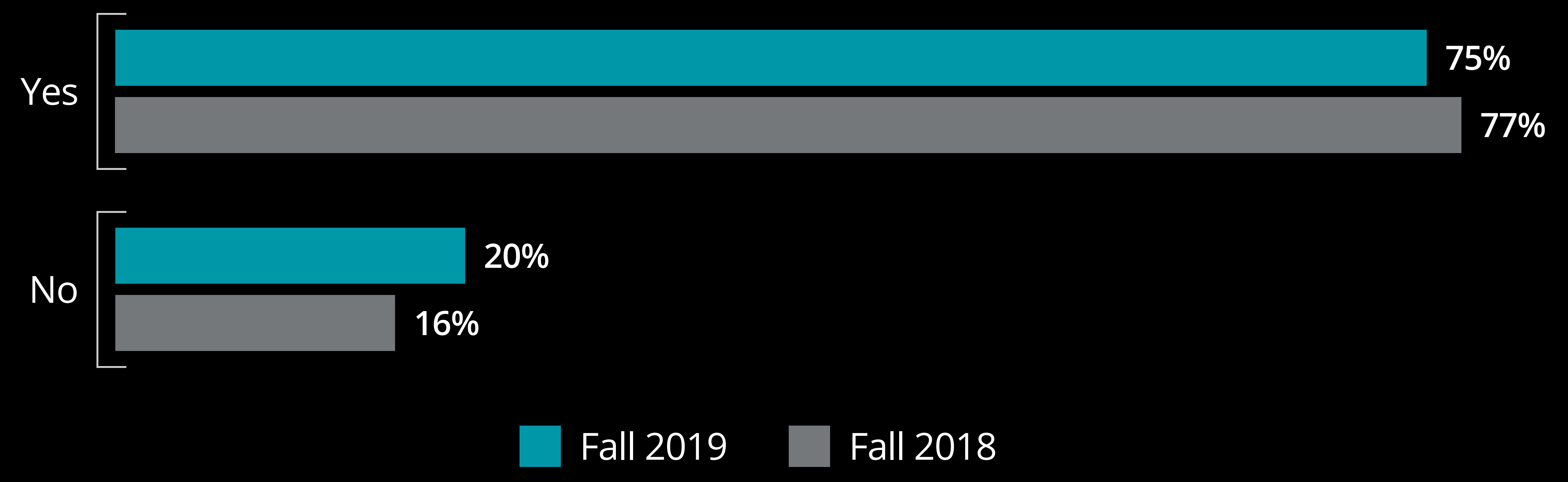

"We're fairly long into this M&A boom cycle, so it's not surprising to see a drop in expectations for larger deals. What we're seeing in the marketplace is more interest in deals in the sweet spot between $100 million and $500 million. Deals aren't going away; companies are just being a little more careful about those larger deals."

Russell Thomson, national managing partner,
M&A Services, Deloitte & Touche LLP

## Corporate divestitures

- 75 percent of corporate respondents expect to pursue divestitures in 2020, the second highest level in the past four years.
- Change in strategy, financing needs, and divesting in technology that no longer fits with the emerging business model were cited as the most important reasons for divesting a business among corporate respondents.

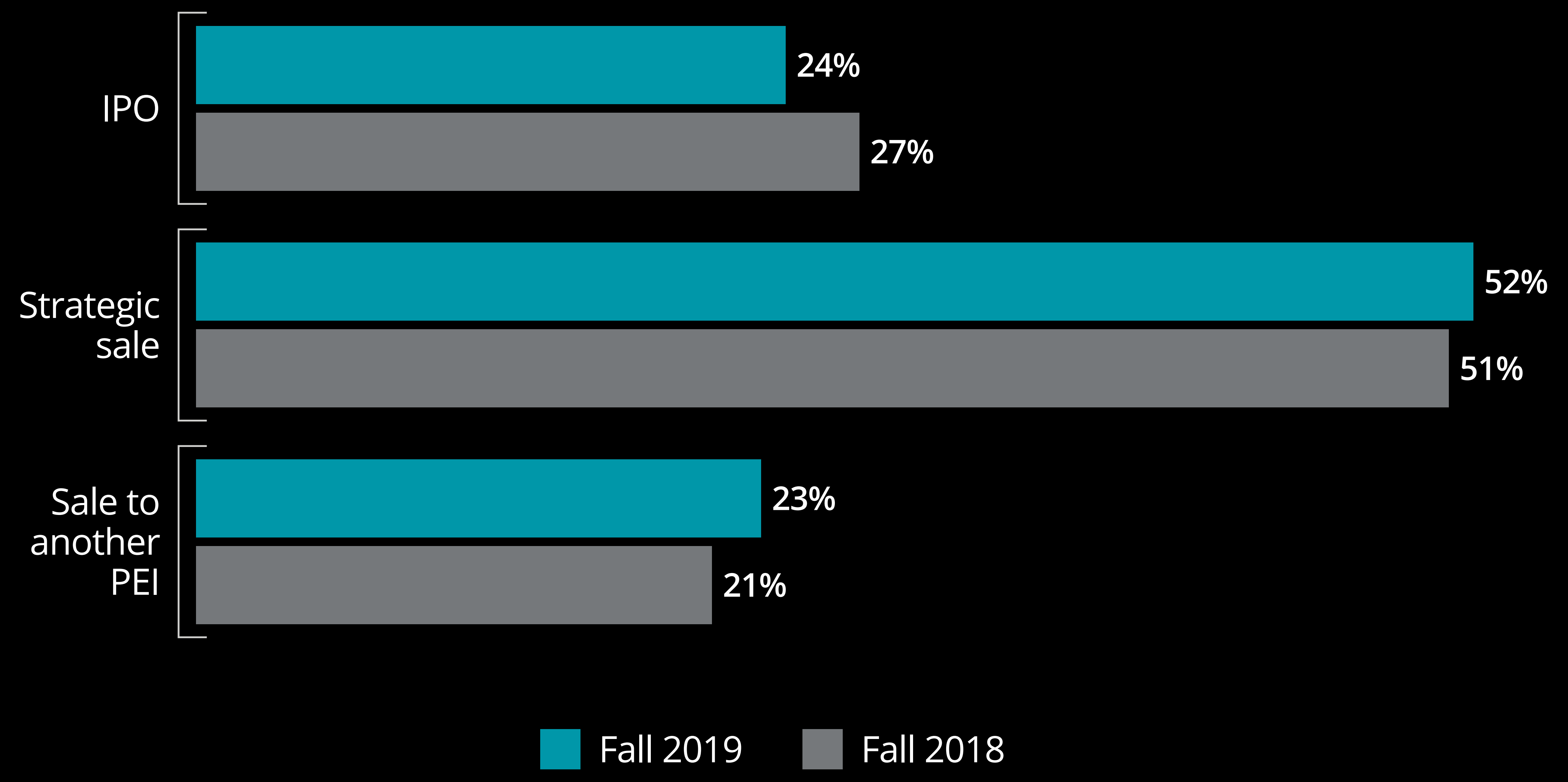
**Do you expect your company to pursue divestitures over the next 12 months? (corporate only)**




## Private equity exits

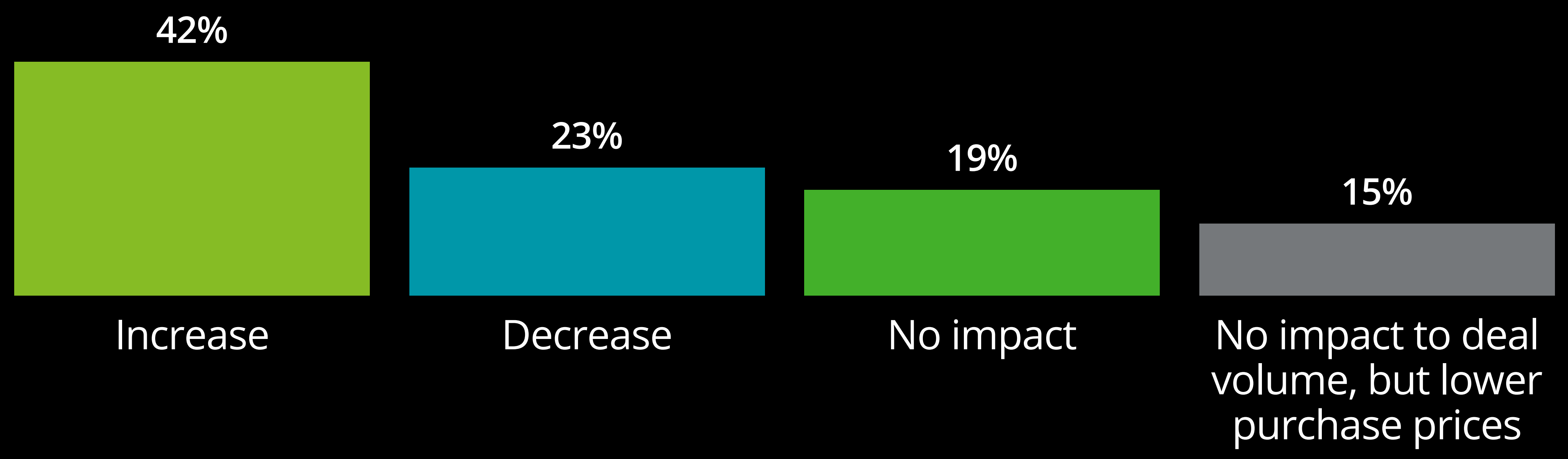
- A majority of private equity respondents are expecting an increased number of portfolio exits over the next year, with most coming in the form of strategic sales, consistent with 2018.

**What do you expect to be the primary form of portfolio exits in the market as a whole over the next 12 months? (private equity only)**

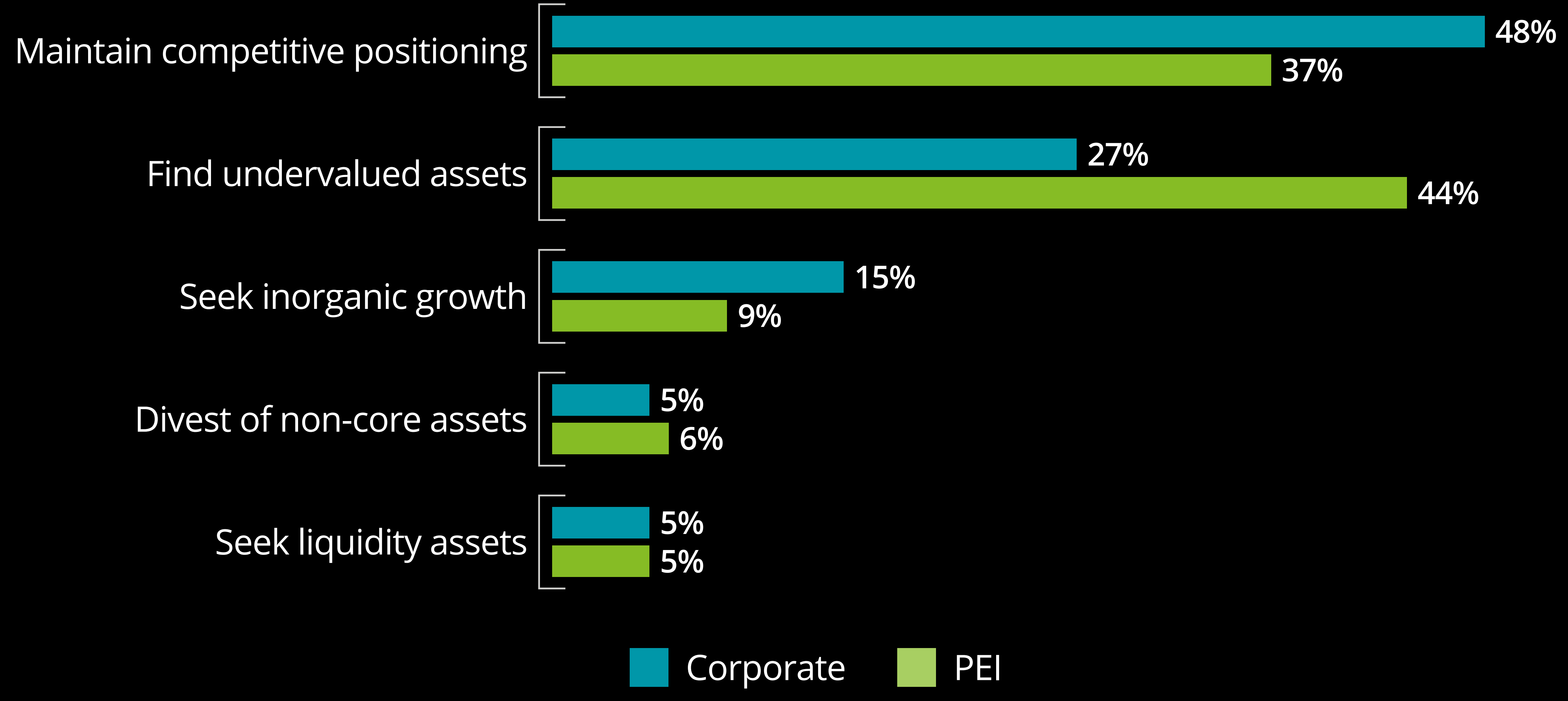


# Possible downturn

Amid a mature US bull market[7] and a record-breaking 10+ year expansion,[8] there is a sense that the economy could be due for a slowdown. In such an environment, one might expect decision makers to become more cautious about pursuing M&A transactions. However, respondents notably say an economic downturn may actually boost deal activity:




What will companies do in the event of an economic downturn? Deal-making strategies divide up as follows among corporate and PEI respondents:




"If the economy slows, let alone dips into a recession, companies aren't going to ignore M&A—they are just going to be even more deliberate in the deals they look to do. That might mean more divestitures, an effort to raise cash or shed units that just aren't performing. Some also are going to be strategic about using a downturn to buy assets more cheaply; this is especially true on the PEI side, which has large cash reserves. Typically M&A doesn't disappear in a downturn—but some strategic imperatives shift."

Jason Langan, partner, M&A Services, Deloitte & Touche LLP

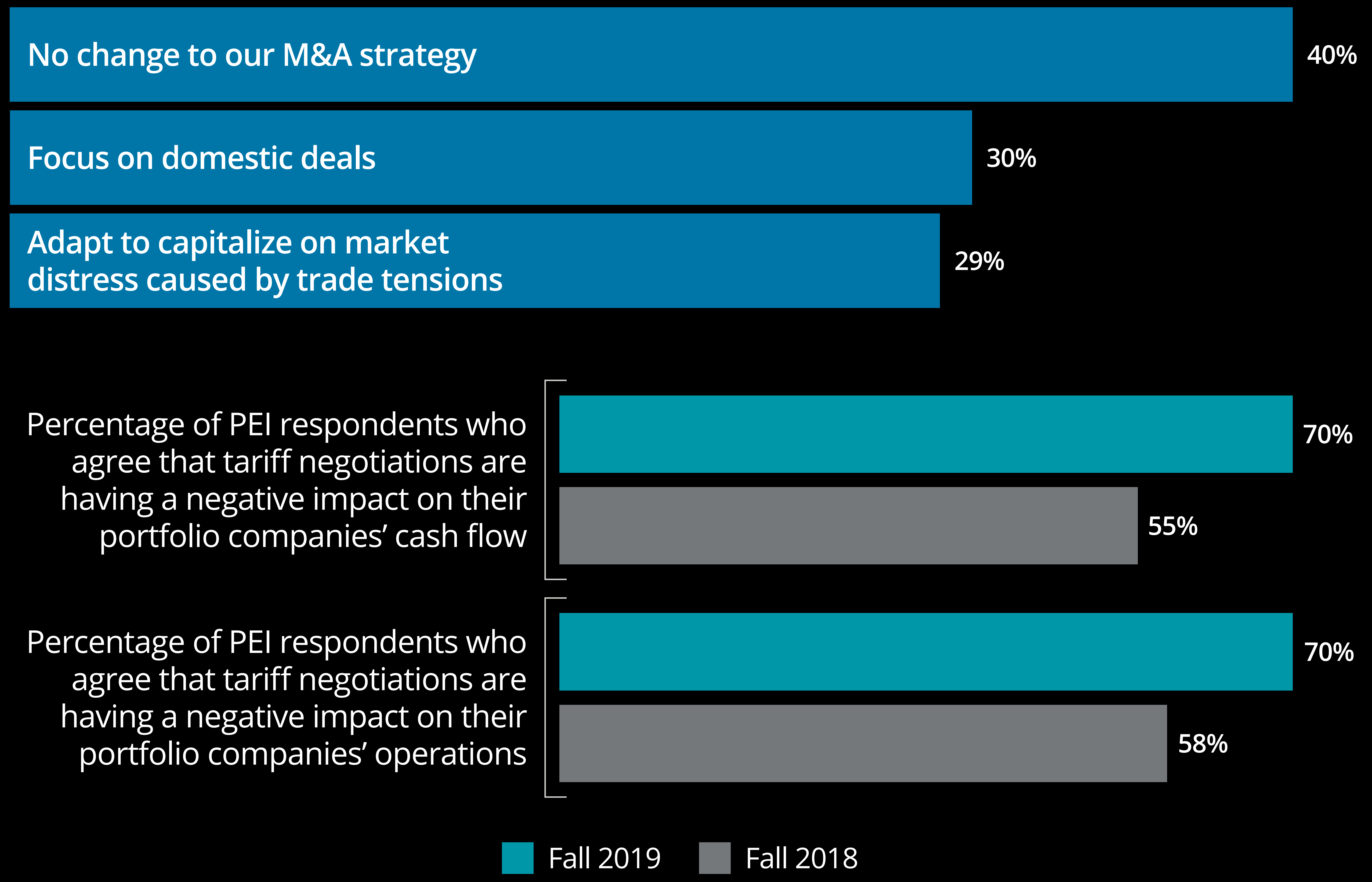
# Trade

With global trade tensions on the rise, organizations are fairly split on how their M&A strategy will evolve to cope with uncertainty created by global trade disputes.

- Forty percent of respondents surveyed say global trade disputes do not change their M&A strategy; while 30 percent of all respondents say it will cause them to focus on domestic deals.
- Another 29 percent of those surveyed say they will adapt their M&A strategy to capitalize on potential market distress caused by trade tensions.

Many private equity investors have grown more worried about the impact of tariffs on their operations.

**What is the primary way in which your M&A strategy will evolve to cope with uncertainty created by global trade disputes?**



# Data privacy

A stable regulatory environment ranks high (third) among all deal makers in terms of the most important factor to achieving a successful transaction—and has moved up in importance in each of the past four years.

Along with policy concerns around trade, some regulatory issues are growing more prominent in M&A, such as data privacy. The bar continues to rise for the level of care that companies must take to protect personal and financial information.

Technology companies, meanwhile, face more stringent requirements around how they collect and use personal information:

- Against the backdrop of recent laws such as Europe's General Data Protection Regulation and California's Consumer Privacy Act, 70 percent of all respondents say that the protection of data assets in a company they are acquiring or divesting is more of a concern now than it was a year ago; just 3 percent say it's less of a concern.

"Data privacy can be a diligence issue. A target company may bring a cybersecurity weakness into the organization, or a transaction that involves layoffs or other workforce changes may create data security risks. At the same time, data protection and management can be an integration issue, with a newly combined organization perhaps reaching into new geographies where regulations differ for the handling of data."

Andy Wilson, partner, M&A Services, Deloitte & Touche LLP

# M&A strategy

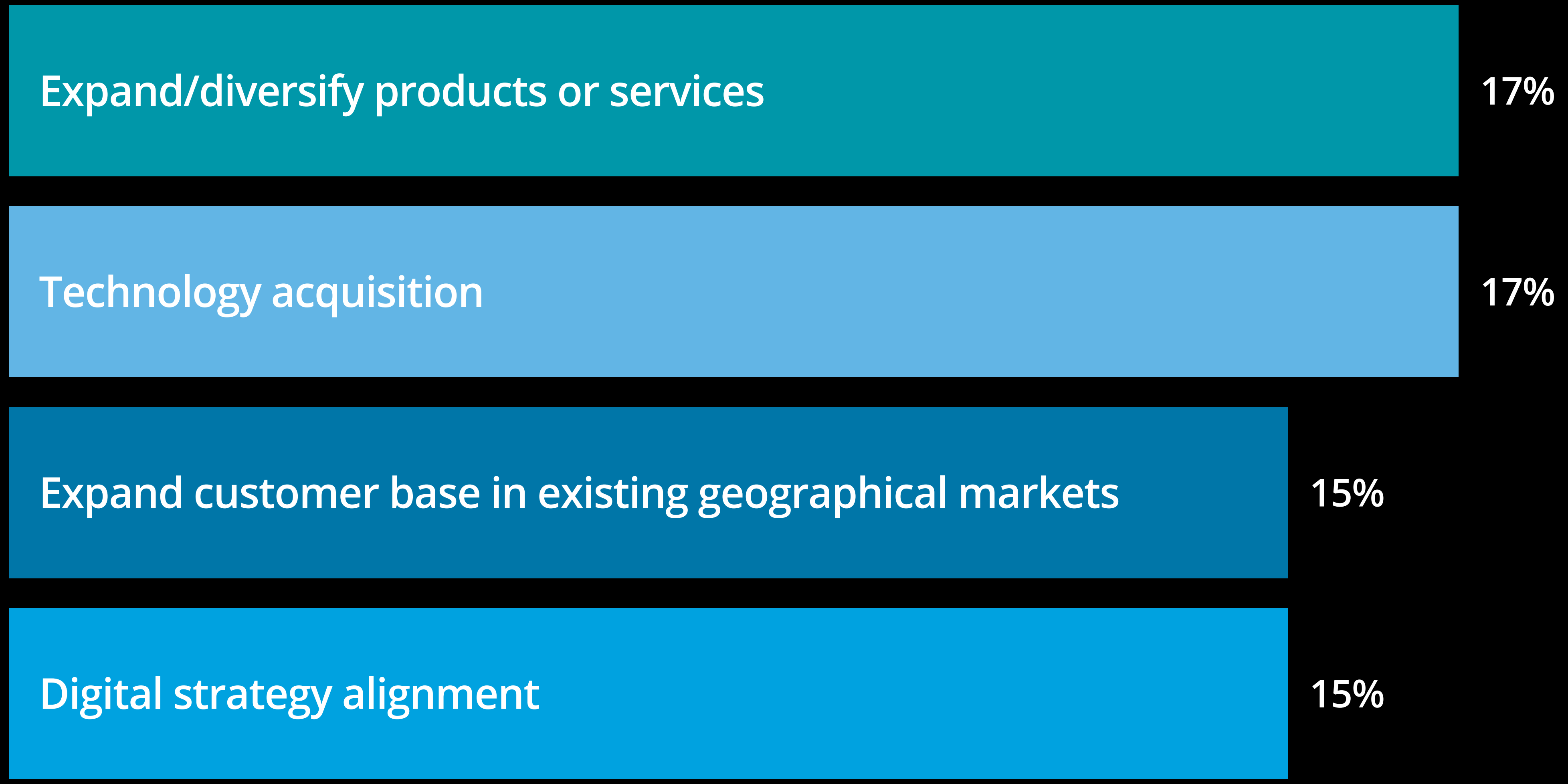
## Strategy drivers

In general, the most challenging underlying needs of a company's business are likely to drive their M&A strategy.

**What is your company's primary M&A strategy over the course of the next 12 months? (corporate only)**


We see mixed responses in this year's survey in terms of building or improving what corporates currently have in their arsenal and adding new technologies or capabilities that fundamentally change their offerings.

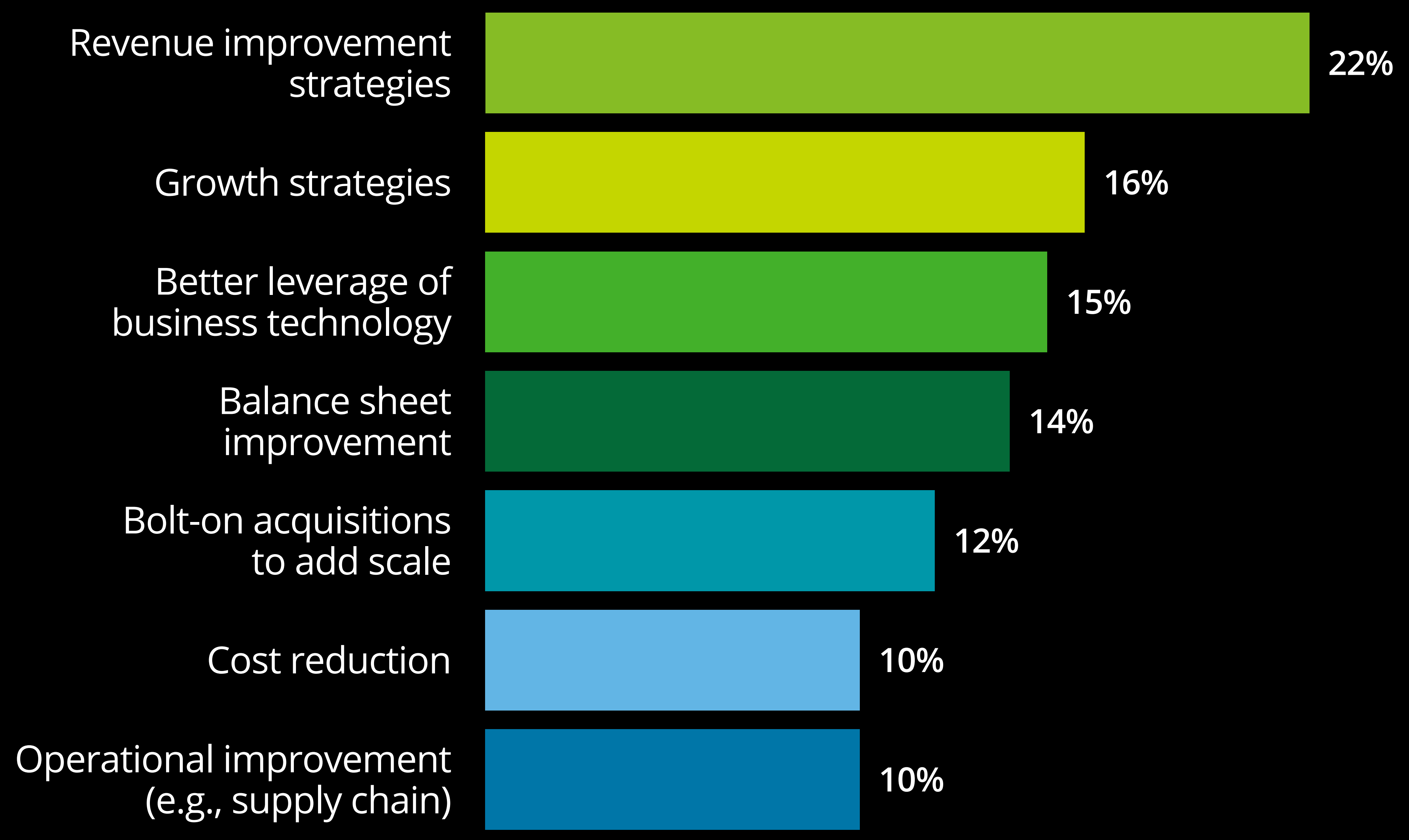
**When asked about the main method corporates expect to utilize to achieve their company's M&A strategy in the year ahead...**



## PEI

More than one-third (38 percent) of PEIs cite revenue and growth improvement strategies as their primary strategy or focus area for driving value for their portfolio companies.

**Next 12 months: Primary strategy for driving value for portfolio companies (PEI only)**



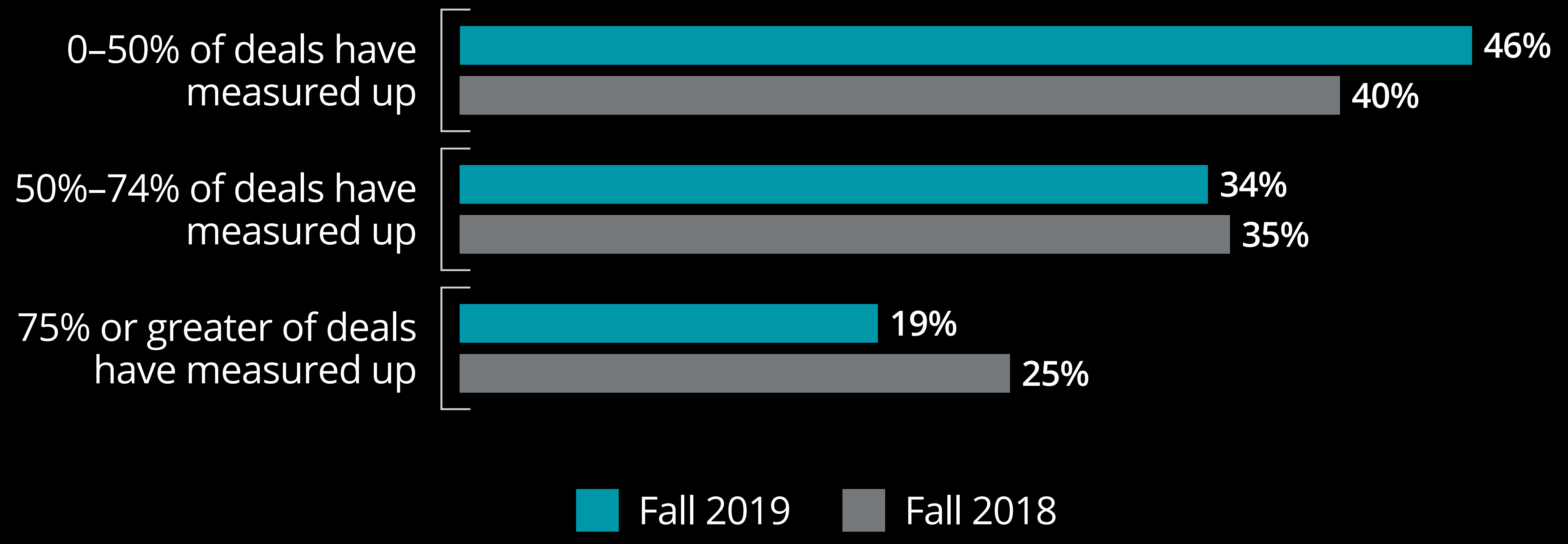

"The IPO market appears a bit shakier, and it's driving more PEIs to sell to other PEIs. We're also seeing a trend in the form of roll-up strategies that basically follow a pattern where you'll have a PEI firm that buys a sub-scale business and bolts on smaller companies at a lower multiple to roll it up into a business of scale. Then that PEI firm will sell to another PEI firm at a higher multiple than the original purchase. We are seeing these firms move up as they roll up business through the stratosphere of private equity from more venture players to middle market private equity to global private equity players further upstream. Scenarios like that are driving a lot of deal flow in the marketplace."

Jason Langan, partner, M&A Services, Deloitte & Touche LLP

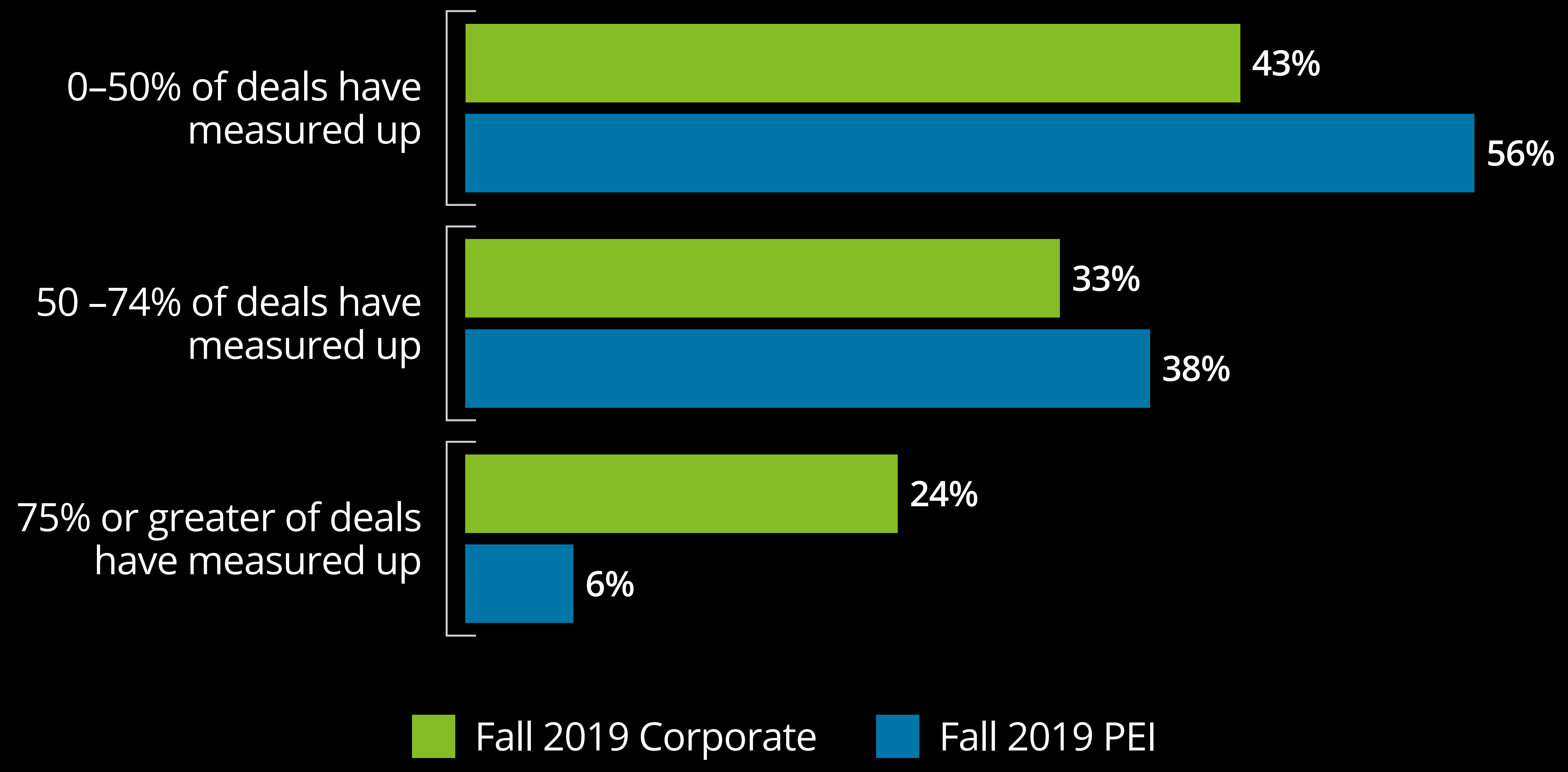
# Deal success

And while strategy is important, deals are typically measured on their results. In this year's survey, dealmakers responded that fewer transactions are meeting their expectations: of all respondents surveyed, 46 percent say that less than half of their transactions over the past two years have generated the expected value or return on investment. As you see in the figure to your right, the downward ROI trend is more pronounced on the PEI side, but relevant to corporates as well.

**M&A return on investment**

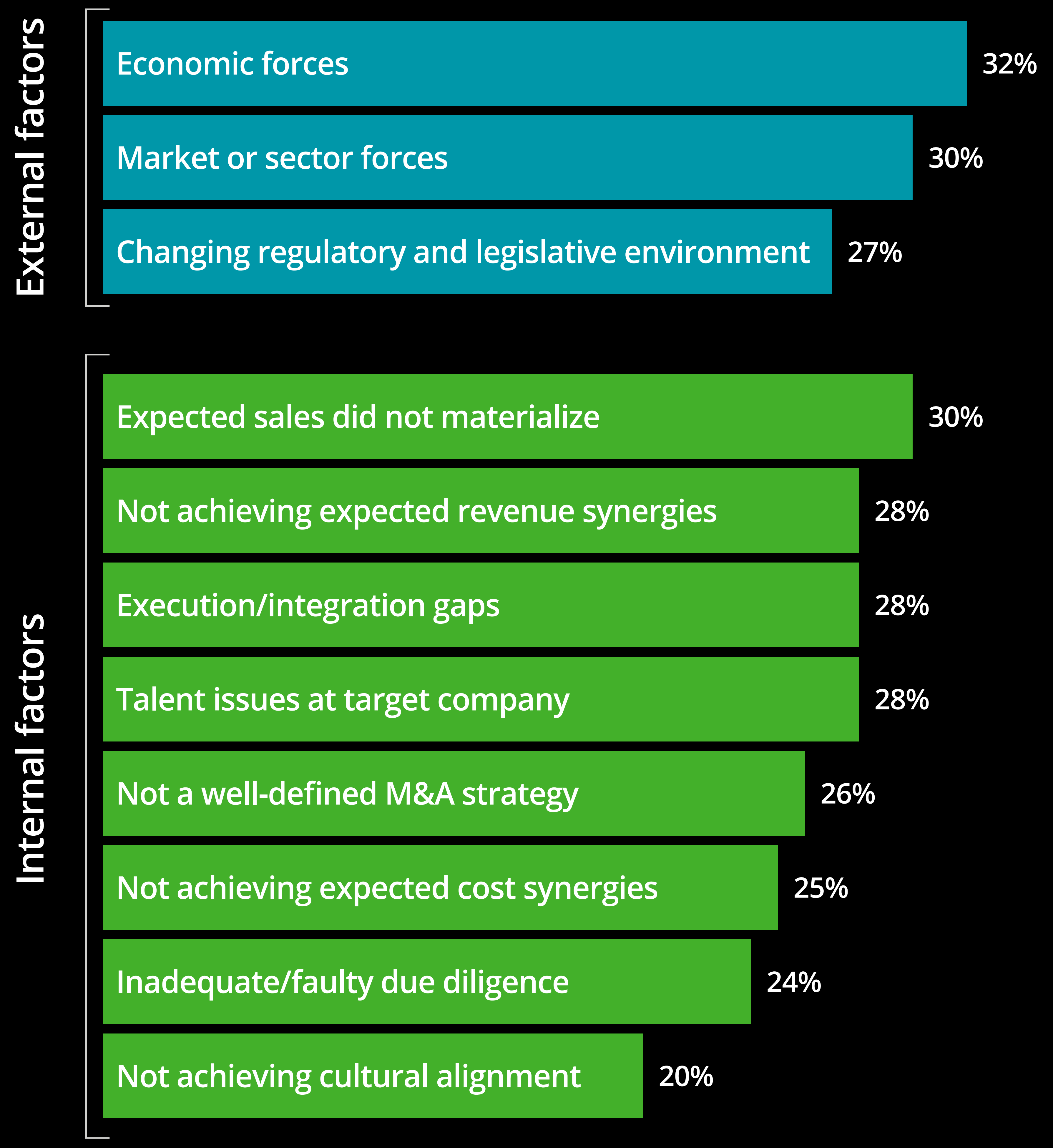



**M&A return on investment (Corporate vs. PEI 2019 responses)**

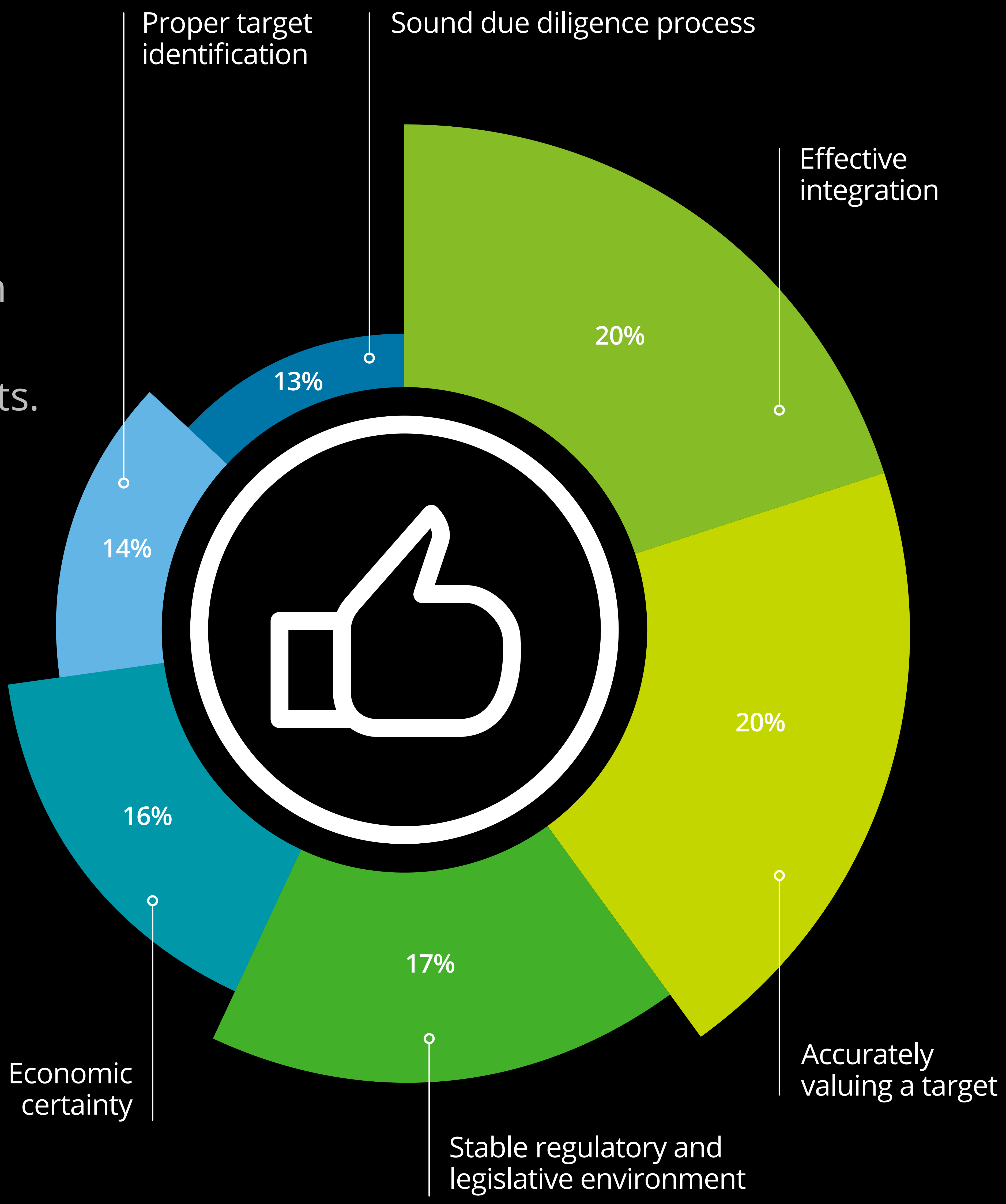



The obstacles that lead to deals failing to achieve their expected value are varied. Many of the issues raised, however, point to the importance of planning and execution of post-close integration to create value, as shown in the next section.

## Top reasons why M&A transactions have not generated expected value




Looking at the other side of the coin, the most important factors in achieving a successful M&A transaction start with effective integration and accurate valuation of targets.



# Looking abroad

**Regions**

Acquisitions of foreign targets have decreased since the previous edition of this report, and trade tensions and uncertainty around when and where tariffs may be imposed could be causing corporate leaders and PEIs to put some international deals on hold.

But deteriorating interest in cross-border transactions is far from universal. The US-Europe corridor remains active, helped by relatively predictable tax and import-export regimes.

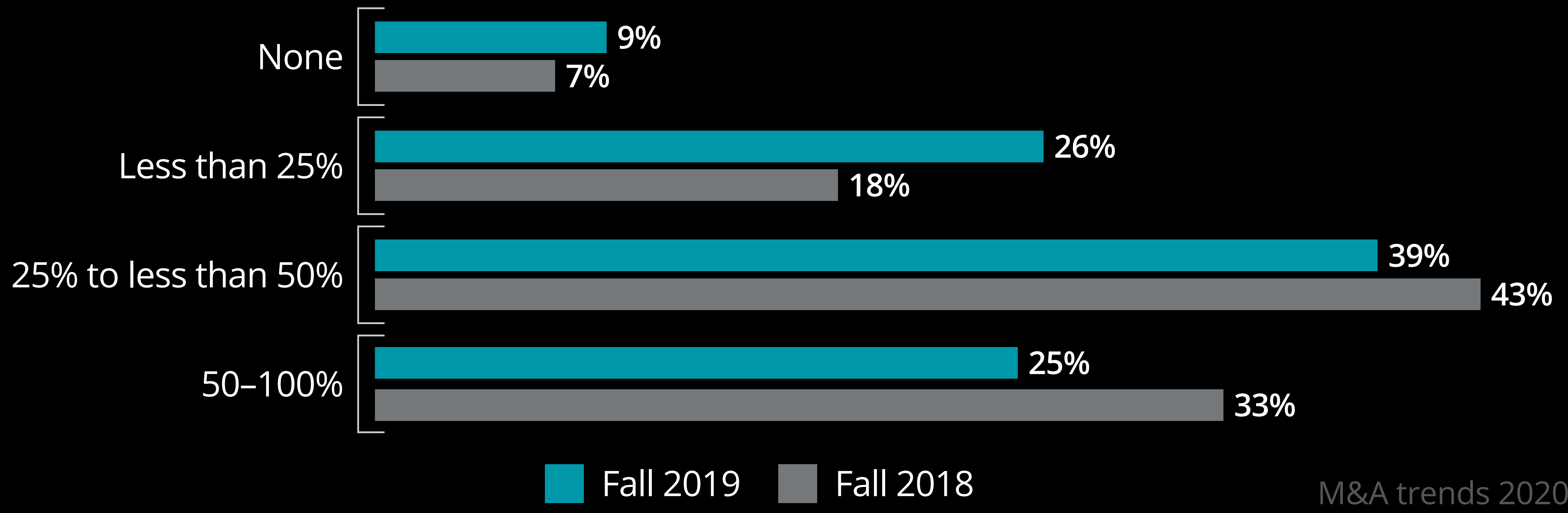
"Firms planning a US-Europe cross-border deal are going in aware of the macroeconomic factors. Some organizations are hunting for bargains because of Brexit; they are seeing pretty distressed businesses about to be impacted by Brexit and so there's a short-term, high level of interest in deals."

Anna Lea Doyle, principal, M&A Services, Deloitte Consulting LLP

"The 2017 tax law changes, which were largely designed to encourage companies to repatriate funds and more broadly invest in US operations, have cut multiple motivators for global dealmaking. Companies previously sought to deploy excess overseas cash on foreign deals. They also sought to increase or shift profits to tax-friendly non-US jurisdictions. Now, between more flexibility to efficiently use global cash piles, combined with rapidly changing and less generous non-US tax regimes, you've got a recipe for more domestically oriented M&A strategies."

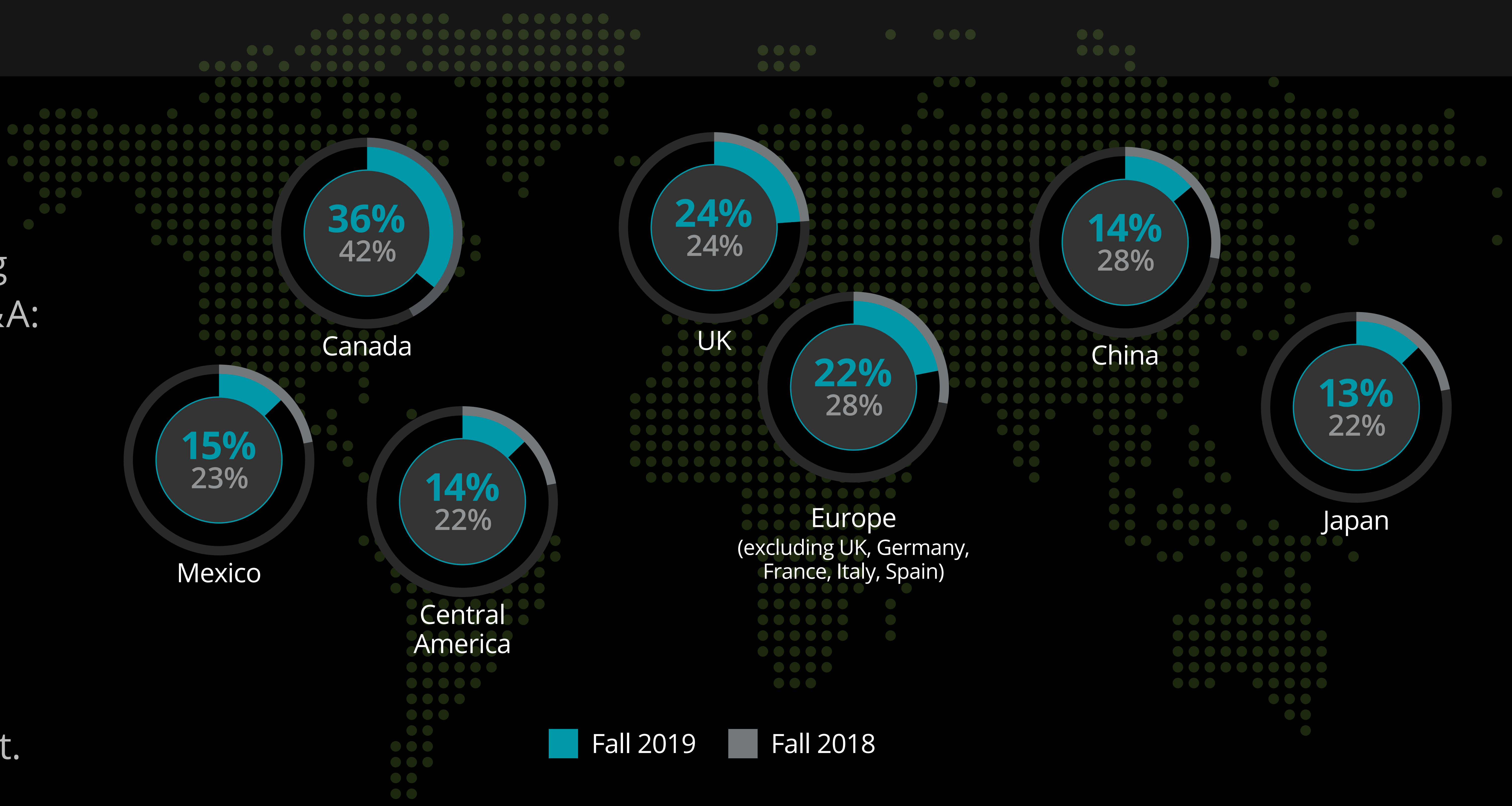
David Hoffman, partner, M&A Services, Deloitte Tax LLP

**Proportion of acquisitions in foreign markets**



Almost every geography is less popular this year among survey respondents as a place to potentially pursue M&A:

- Interest in China drops by half, with just 14 percent of all respondents saying they are likely to pursue deals there.
- Interest in Japan also plunges, falling to 13 percent in this year's report.
- Mexico is attractive to 15 percent of respondents as a place for M&A; Central America drops to 14 percent.
- The countries or regions that corporate and PEI respondents are mostly likely to pursue? Canada, the UK, and smaller European economies (exclusive of Germany, UK, France, Italy, Spain).
- The UK is the only major economy that doesn't have a year-on-year decline, though it's down compared with three years ago, when 31 percent of respondents cited the country.




"For 10 years, everyone was focused on Emerging Markets—Brazil, China, and India among them. And a lot of companies got burned for various reasons, including the economy, tax issues, and intellectual property issues. We're seeing some continued interest in entering new geographical markets, but the deal sizes are a lot smaller than they used to be."

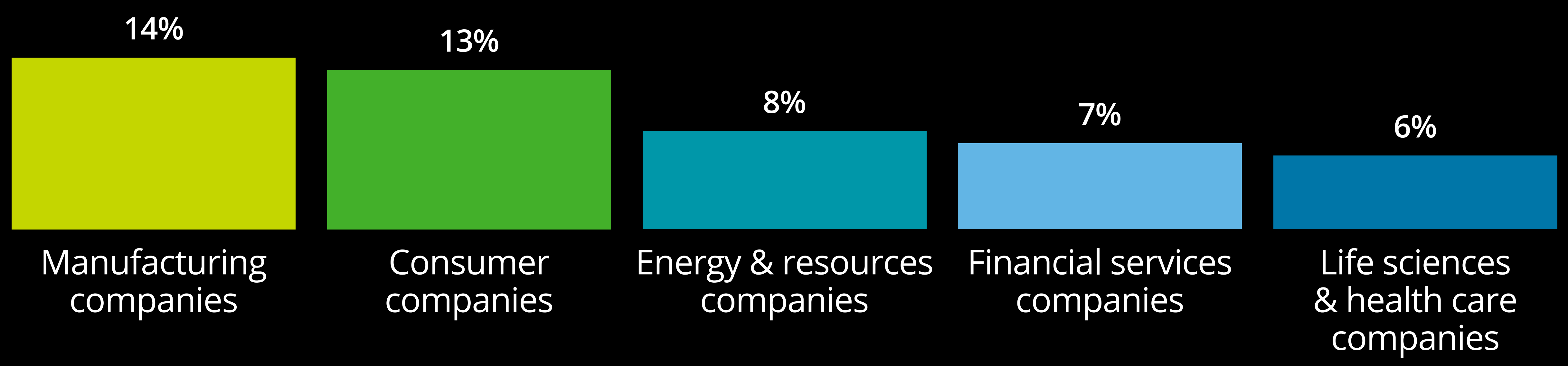
Susan Dettmar, principal, M&A Services, Deloitte Consulting LLP

# Industry convergence

In general, survey respondents (both corporate and PEI) expect to look primarily within their own industry or a closely related sector to make acquisitions in the coming years. That said, interest in technology deals shows up across many sectors:

- Among all corporate respondents, technology is the most common choice when asked where they were interested in doing acquisitions outside of their own industry/sector, at 16 percent.
- The next most common choices among corporates are renewable energy at 10 percent and then power and utilities, insurance, and investment management, all garnering 9 percent.

**Next two years: Industry sectors interested in making acquisitions with technology**




"Everyone is trying to add technologies—smart technologies that in many cases are very new to the world—and incorporate them to show growth and demonstrate an ability to innovate. Some sectors and industries were slow to the game, such as health care, which was falling behind some giant technology companies. Often, innovation is happening elsewhere, and established players know they have to get attached to it. M&A presents a clear path to do this, and using your dealmaking to acquire technology is a trend that's likely to continue or even strengthen as companies see how powerful new technologies, such as artificial intelligence, can help their businesses."

Susan Dettmar, principal, M&A Services, Deloitte Consulting LLP

# Shareholder activism

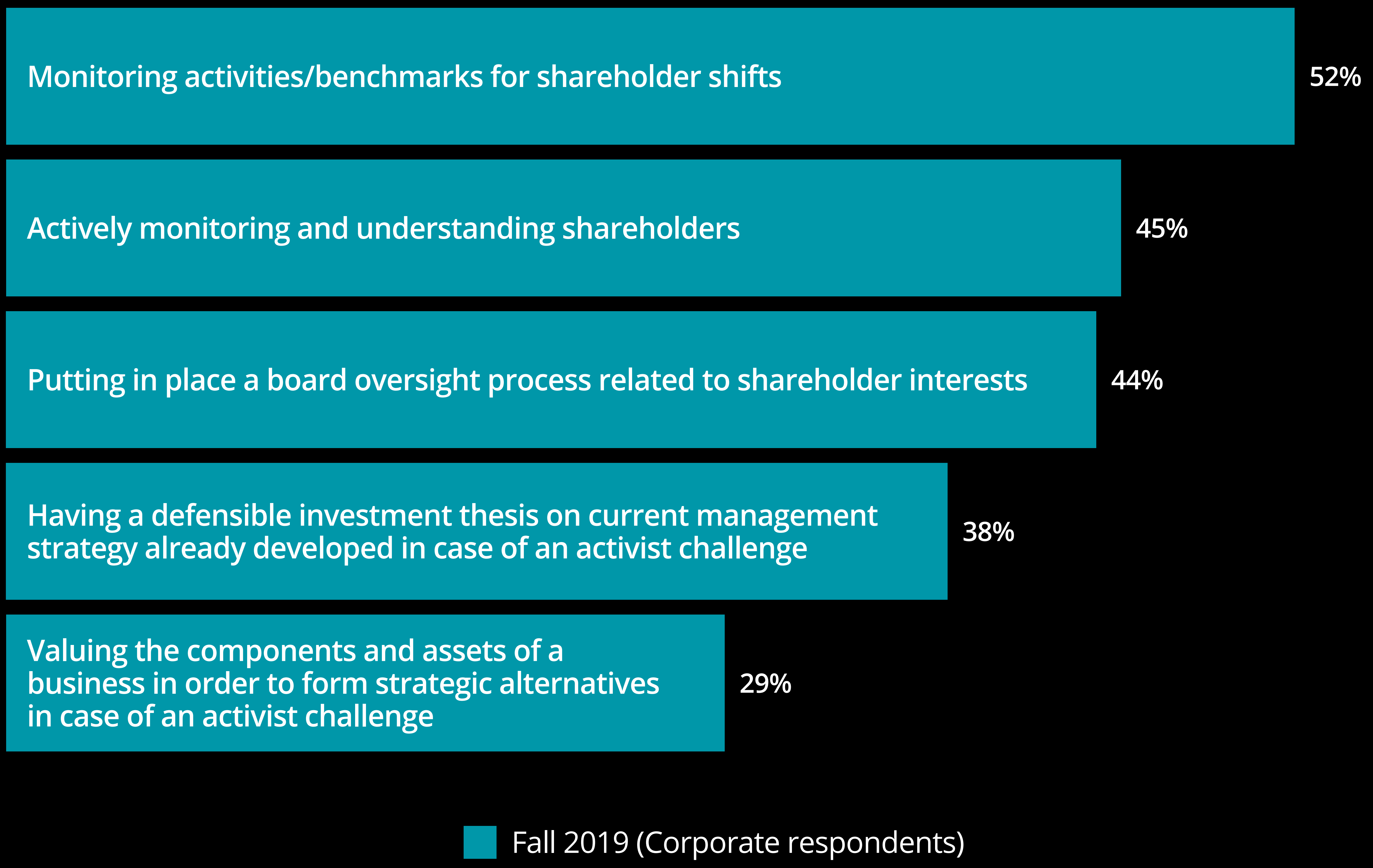
Nearly 60 percent of corporate respondents say shareholder activism is having an impact on their M&A strategy and execution.

Dealmakers are putting a heightened emphasis on being prepared for activist campaigns, which could lead to significant changes or even structural transformation of a company.

"It's important to keep track of ownership structure. What's the nature of the investors who have the biggest holdings in your stock? Are the big funds that own your company seeking stable, long-term returns or are they shorter-term investors or entities that might be prone to actually joining an activist effort? There are many different ownership entities that will take differing points of view on your stock and your strategy."

Joel Schlactenhaufen, principal,
M&A Services, Deloitte Consulting LLP

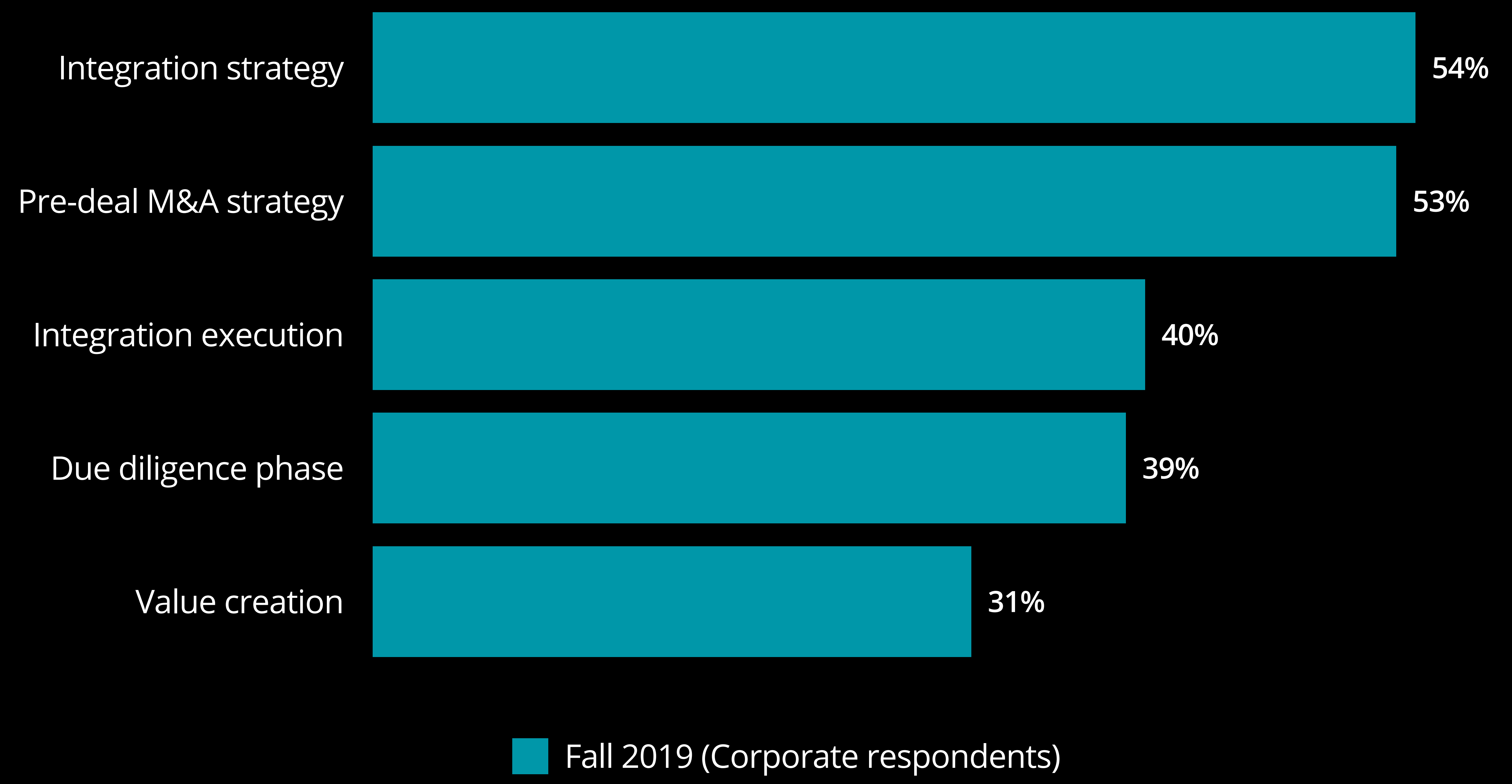
**How does your company mitigate the risk associated with shareholder activism?**



# Boards involvement in M&A

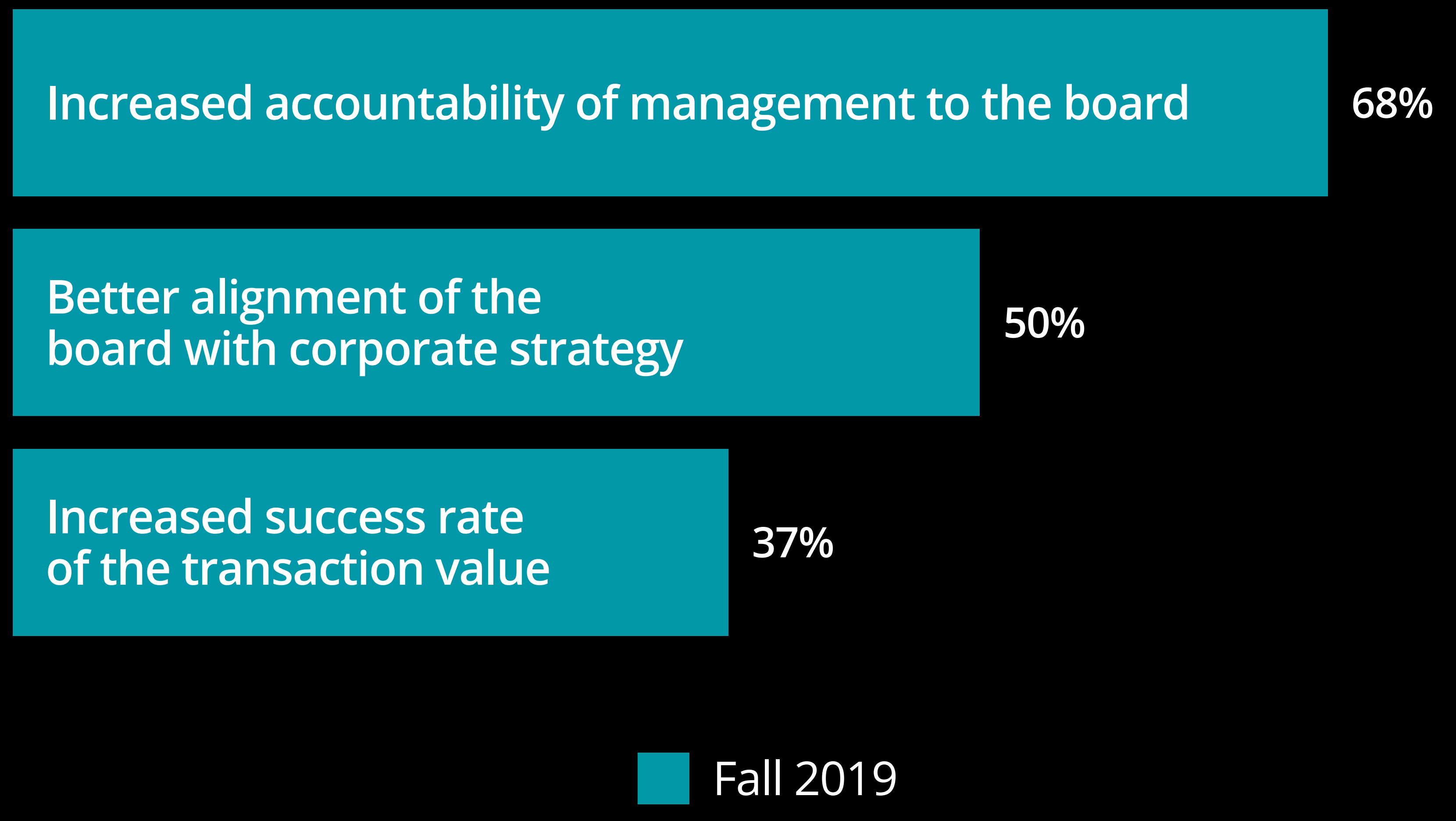
Eighty-two percent of corporate respondents say their boards actively oversee M&A activity. Still, the level or nature of that involvement can run the gamut: it may be a fairly traditional role in which directors approve or disapprove the transactions management brings forward, or—at the other end of the spectrum—it could describe a proactive board that takes a role in developing M&A strategy, supervising due diligence, and helping to develop and oversee the execution plan.

**In which aspect(s) of the M&A life cycle are your board of directors getting involved?**



What's the value of having boards of directors involved? Increased management accountability, better alignment of the board with management strategy, and increased success in achieving transaction value.

**What value is added when your board of directors participates in an M&A transaction?**



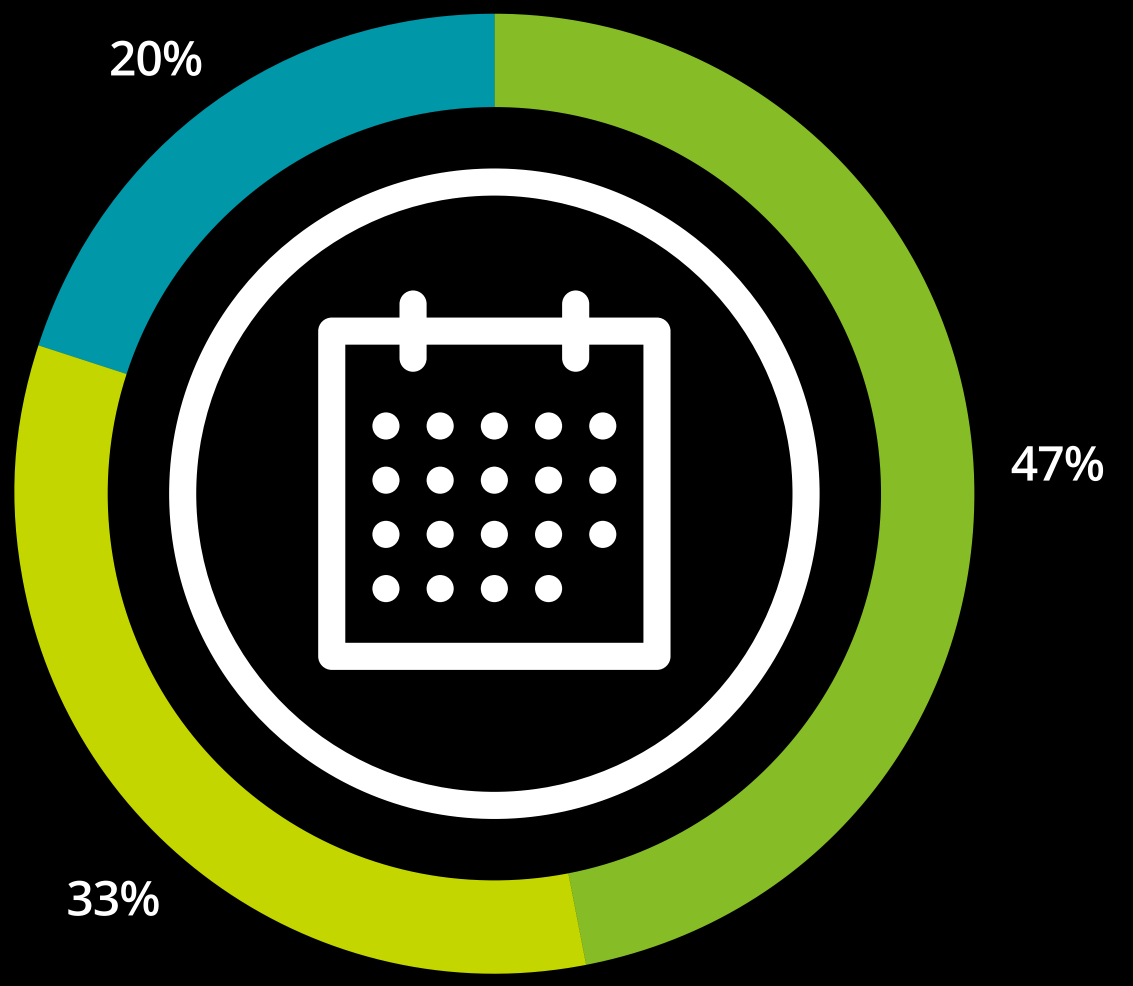

"There's a lot of texture in board involvement. Almost all are involved, naturally, in approving bigger transactions. I infrequently see much board involvement in post-merger integration, unless the deal is a large one. On the larger transactions, the risk to the company and shareholders is higher. The returns are higher, too, if executed effectively. So, the board typically wants increased accountability for management—and that might mean more frequent reports and interactions."

Joel Schlactenhaufen, principal, M&A Services, Deloitte Consulting LLP

# Due diligence

Even as dealmakers focus on streamlining their M&A process, survey respondents report some steps are going more slowly.

**Change in time required for due diligence process now vs. five years ago**

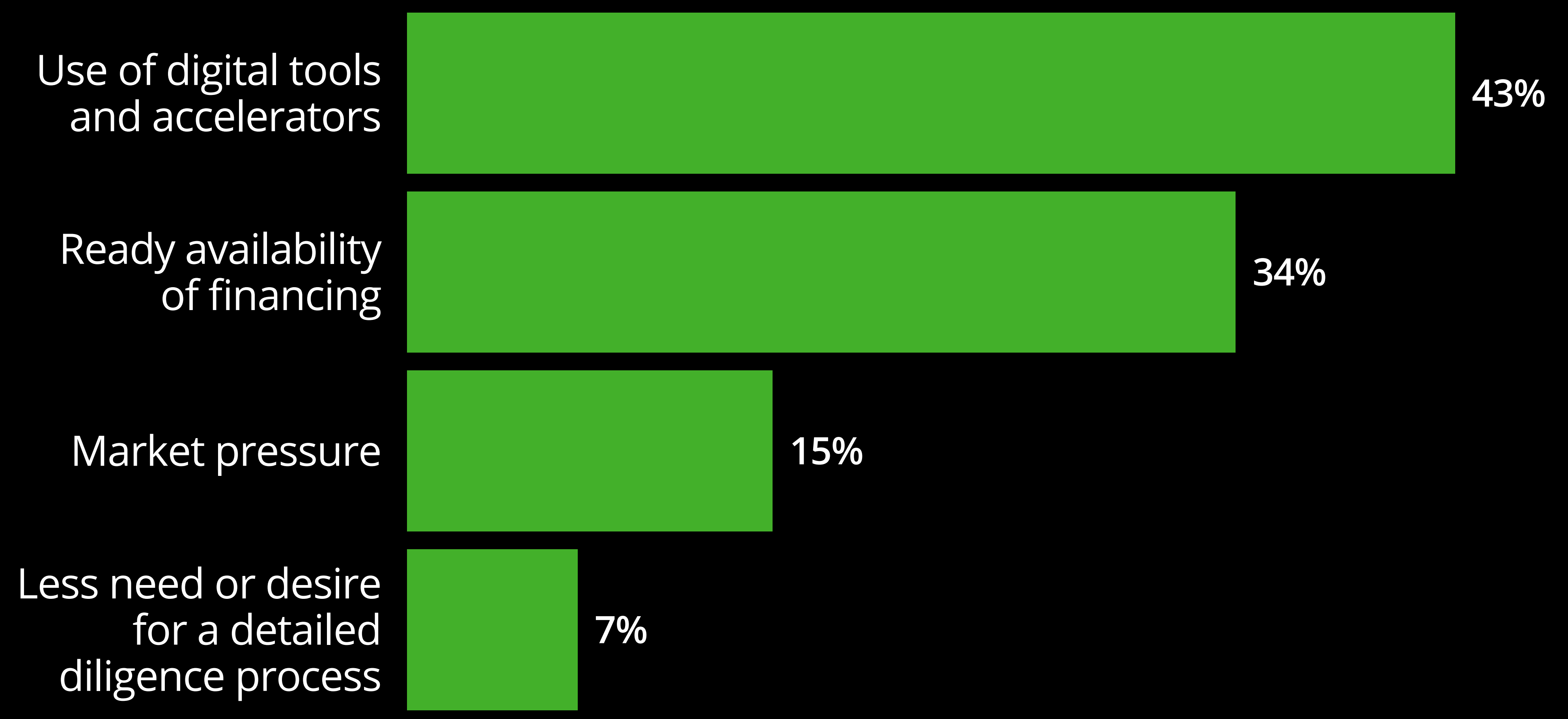



"Gartner says the average time to close an M&A deal has risen more than 30 percent in the past decade."[10] This development may be related to the greater complexity of deals, or it may be rooted in where we are, well into a long M&A cycle, which makes it harder to find good deals. Regulatory and policy uncertainties, along with information security concerns, may also play roles in extending the due diligence phase.

"Given the amount of deals closing in the past several years, there may be fewer deals out there to do—and more competition for targets. When there's more competition, the deal process can move slowly as the seller tries to keep multiple potential buyers in the process for as long as possible. I'm also seeing uncertainty around tariffs become an issue that can slow things down, which is new. In my last two manufacturing deals, the buyer wanted to assess current and potential tariffs on the target's products and projections about how they could affect the value."

Andy Wilson, partner, M&A Services, Deloitte & Touche LLP

Nevertheless, corporate and PEI survey respondents identified the solutions for increasing the speed of diligence. Among those who say they have sped up their due diligence:

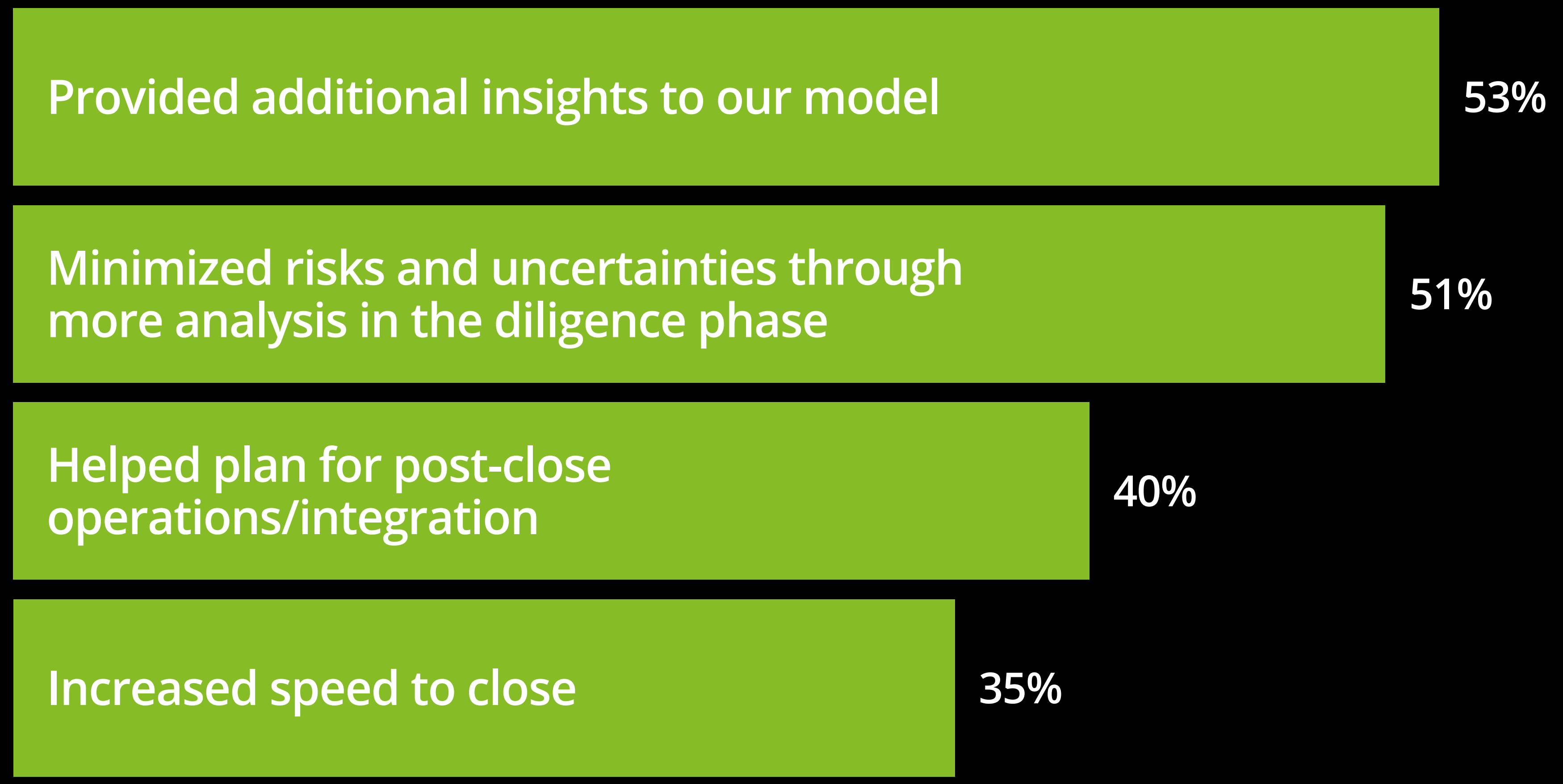



Digital tools are giving buyers greater insight into the organizations they acquire. This helps integration planning to be more effective and more tightly focused on value creation, boosting the likelihood of deal success. There's strong enthusiasm for the insights and analysis that digital data tools make possible. The majority of all respondents (84 percent) agree or strongly agree with the premise that digital tools and accelerators improve the understanding of targets prior to deal closing, against 6 percent who disagree.

At the same time, in recent years, the ease with which deal financing can be arranged has spurred deal activity and often increased the start of the M&A diligence phase. This reinforces the message that having financing in place early is a leading practice for acquirers, allowing them to be more nimble and effective in executing their M&A strategy.

# M&A digital accelerators

## How has the use of digital tools and accelerators impacted your company's most recent transactions?




"Sellers are sharing more data. With the right digital tools and techniques to analyze that data, buyers get significantly better information than was previously possible with a team of people pounding away on spreadsheets. Today, the buyer may have an interactive dashboard that helps show the profitability specific customers are driving. You can drill down into product sales, product costs and margins, and come away with insights that can move the needle on valuations."

Andy Wilson, partner, M&A Services, Deloitte & Touche LLP

# Conclusion

Since 2013, companies and private equity investors have announced transactions in the US worth in aggregate more than $10 trillion[10]—a record-setting run. Though it's clear that nothing lasts forever, our *2020 M&A Trends* survey does not indicate that dealmaking has reached the end of this cycle. Our survey respondents predict some moderation and stabilization as strong M&A activity persists.

What's driving this continued activity? There's a lot of cash —both at corporations and PEI firms—to continue to support dealmaking in the near term. US companies held $1.55 trillion in cash at the end of 2019—down slightly from last year.[11] The number one intended use of that cash will be M&A, according to our survey. PEI firms in the US have record levels of dry powder on top of that. For those who want to use stock to finance a deal, their currency is strong as the bull market in stocks continues into its 11th year— a record.

Even while anticipating the potential of an economic slowdown, survey respondents still see deal activity opportunities—divesting of noncore assets that won't be profitable if the economy cools, or buying units that will enable companies to weather a downturn.

Regardless of economic conditions, M&A continues to be an important growth driver—and opportunities exist in specific sectors, regions, and deal types. To be sure, headwinds abound, not the least of which is the ability to make more deals work. There are important factors to focus on, such as integration planning and execution—and of course, every organization needs a sound M&A strategy to begin with. But despite concerns about the M&A boom being late in the cycle, 2020 appears on track for another active year.

# About the Survey

Between October 10th and October 24th, 2019, a Deloitte survey conducted by OnResearch, a market research firm, polled precisely 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 the upcoming 12 months as well as their experiences with recent transactions.

All participants in the survey work either for private or public companies with revenues in excess of $10 million, or private equity firms. The participants hold senior ranks (at least director level at the corporations). More than half of all respondents sit in the C-suite. This year, more respondents were COOs, CFOs, and Directors and fewer owners and CEOs. All respondents are involved in M&A activity.

The corporate respondents represent a variety of industries: technology, consumer, energy, financial services, and life sciences among them. More than half of the corporate respondents (59 percent) work for privately held companies. More than a quarter (28 percent) work at a company with more than $1 billion in revenue, and 26 percent work in a company with revenue less than $250 million. The rest are in the middle.

The private equity respondents come from a variety of funds—though we surveyed bigger funds this year than in the past. More than one-third (34 percent) of respondents work at funds with more than $3 billion in assets, up from 25 percent a year ago. Only 14 percent work at funds with less than half a billion dollars to invest.

# Endnotes


1. Refinitiv data.
2. Moody's Investors Service, "Moody's: After a drop in 2018, US companies' cash holdings to decline 7.5% this year" [press release], November 13, 2019: https://www.moodys.com/research/Moodys-After-a-drop-in-2018-US-companies-cash-holdings--PBC_1202928?WT.mc_id=AM%7ERmluYW56ZW4ubmV0X1JTQl9SYXRpbmdzX05ld3NfTm9fVHJhbnNsYXRpb25z%7E20191113_PBC_1202928.
3. Source: Refinitiv | Based on date announced; Volume figures are based on deals both WITH and WITHOUT a disclosed value; Deal status is "Completed," "Pending," or "Intended."
4. Source: Refinitiv | Based on date announced | Calculations based only on deals with a disclosed value.
5. Refinitiv data.
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# Meet the M&A Services team

**Russell Thomson**
National managing partner
Deloitte & Touche LLP
rthomson@deloitte.com

**Susan Dettmar**
Principal
Deloitte Consulting LLP
sdettmar@deloitte.com

**Mark Garay**
Managing director
Deloitte Services LP
mgaray@deloitte.com

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