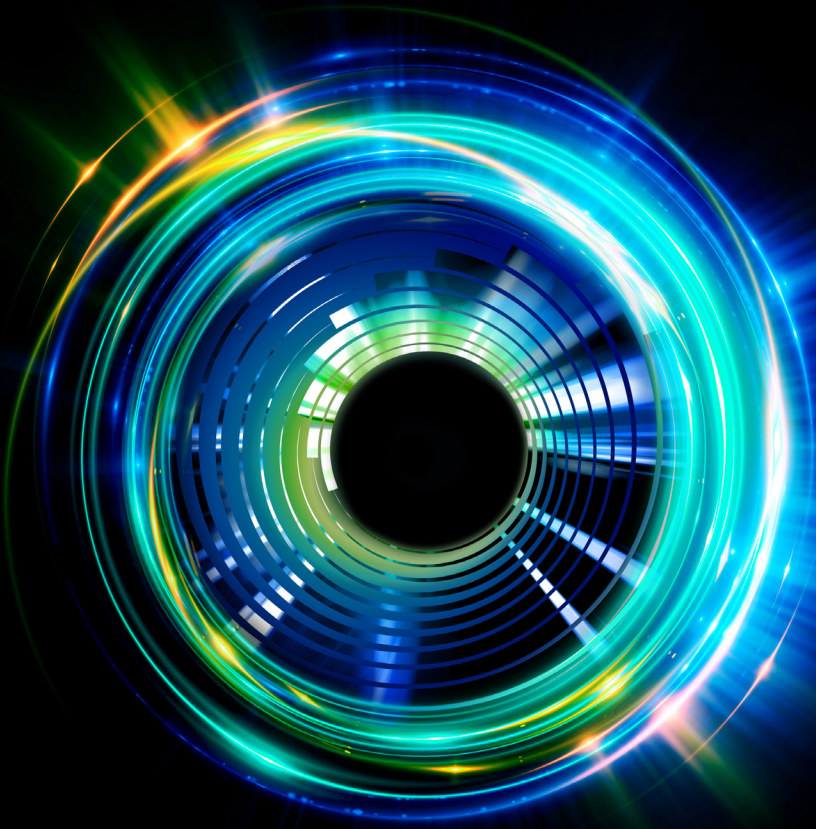
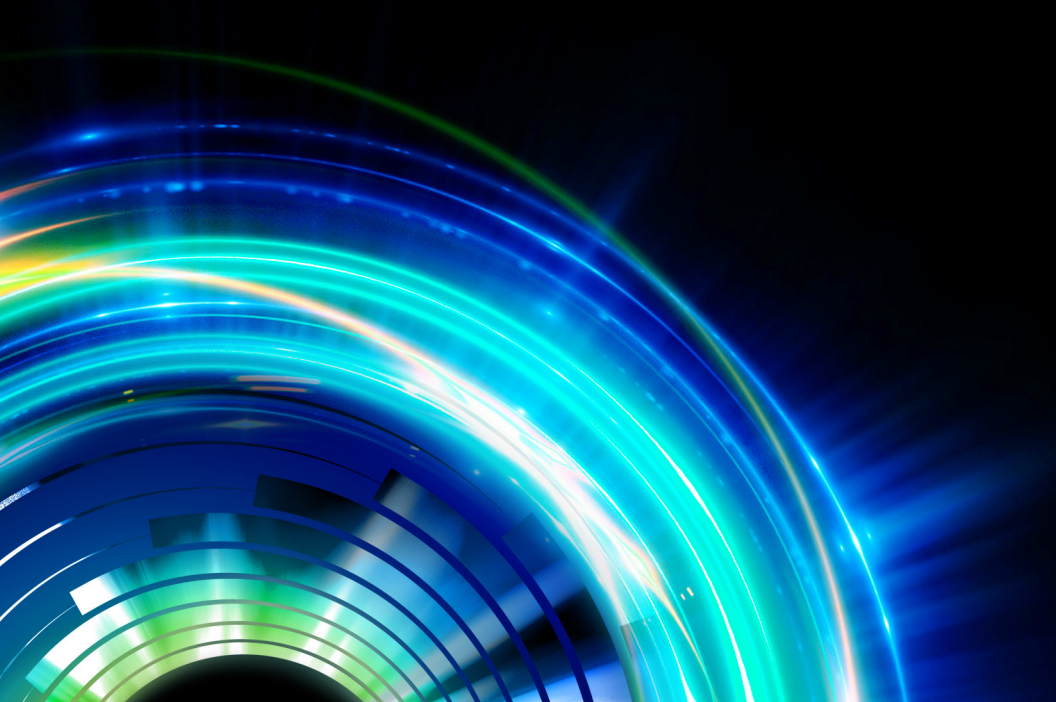


**Deloitte.**



**The state of the deal**  
M&A trends 2019



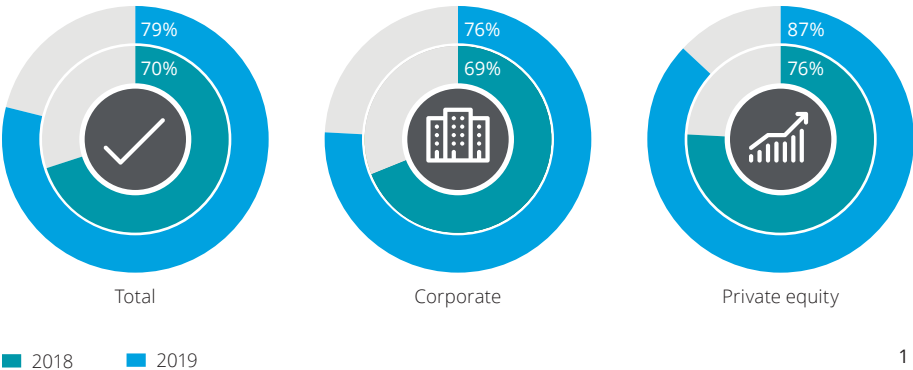
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# Executive summary

Corporate and private equity executives focused on mergers and acquisitions (M&A) anticipate further acceleration of deal flow in 2019—both in the number of transactions and in their size—which would further extend several years of record M&A activity.

In Deloitte's sixth *M&A trends* report, we gleaned insight from 1,000 executives at corporations and private equity firms about deal activity in the current year and their expectations for the next 12 months. Given current uncertainties facing dealmakers, the somewhat surprising results point to sustained, strong deal activity, and the numbers are striking: 76 percent of M&A executives at US-headquartered corporations and 87 percent of M&A leaders at domestic private equity firms expect the number of deals their organizations will close over the next year to increase. On top of that, there is strong sentiment that the size of those transactions will be larger than the ones brokered in 2018—with seven in 10 respondents saying they anticipate bigger deals.

Percentage of organizations that expect an increase in the average number of deals over the next 12 months



## Among the other top findings in our report:

---



### Full speed ahead

Deals on the rise: 79 percent of all respondents expect the number of deals they close in the next 12 months to increase, up from 70 percent last year. There is also a notable drop in corporate and private equity respondents who foresee deal flow flattening or abating—with only 21 percent anticipating a flat-to-down year for M&A ahead, compared with 30 percent a year earlier.

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### Dollar value up

Respondents predict a significant uptick (51 percent this year, compared to 38 percent last year) in the total annual dollar value of deals between \$500 million and \$10 billion.

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### Expand & diversify

While still important, technology acquisition no longer reigns as the most critical aspect of corporate M&A strategy. Instead, corporate respondents are most focused on expanding their customer bases in existing geographic markets or expanding and diversifying their products and services—and we'll explore what could be driving that shift on page 10 of this report.

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### Why some deals don't generate expected value

Despite the strong deal environment, about 40 percent of respondents say that half their deals within the past two years failed to generate their expected value or return on investment. Most pin the blame on outside factors, such as the economy, market/sector forces, or regulation. Others concede that sales failed to materialize, and an increasing number of respondents cite gaps in integration execution.

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### Intra- and inter-industry convergence

Industry and sector convergence continues to be a major theme in M&A transactions. In this year's survey, respondents selected banking and securities as the most likely sector to experience convergence, followed by energy and resources, asset management, and technology. To learn what they expect these sectors to converge with, please see page 16.

The survey is full of additional revealing insights. Corporations have increased cash, in part due to tax reform, and M&A remains the No. 1 intended use of those funds. About a third of respondents expect to reach across borders to make deals in 2019, and there is an unexpected surge of interest in China.

As you read further into our survey results, we trust that you will glean valuable knowledge about what is driving the expected continued M&A boom and what factors are considered key to a successful deal. As we look back over half a dozen *M&A trends* reports, we're committed to providing you with ongoing insight to help make your next transaction a success.

**Russell Thomson**  
**National Managing Partner**  
**Mergers & Acquisitions Services**  
Deloitte & Touche LLP

# Volume, size, and type of deals to come

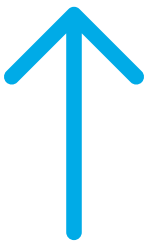
## Volume

Survey respondents are increasingly bullish on expectations for M&A deal activity over the next 12 months. On the corporate side, 76 percent of respondents say they expect the number of deals to increase, up from the prior year when 69 percent projected a gain. On the private equity side, 87 percent of respondents foresee an uptick in deal flow, a considerable increase, up from 76 percent a year earlier.

Respondents from larger private equity funds are almost unanimous in their anticipation of more deals in 2019, as 94 percent of respondents at funds larger than \$5 billion expect an increase compared with last year. Interestingly, there is not the same correlation among corporations; only 65 percent of respondents at the biggest companies (\$5 billion or more in annual revenue) see accelerating deal flow in the next 12 months.

Corporate respondents from financial services, energy and resources, and telecommunications, media, and technology (TMT) industries were the most optimistic, in sequential order, on the likelihood for more deals in the year ahead.

Also telling was the jump among those who expect M&A activity to **increase significantly**. Almost a third of corporate respondents see a significant increase in deal activity—up from about a quarter a year earlier; and 29 percent of private equity respondents expect a surge, up from 19 percent a year ago.



Deal activity  
on the rise

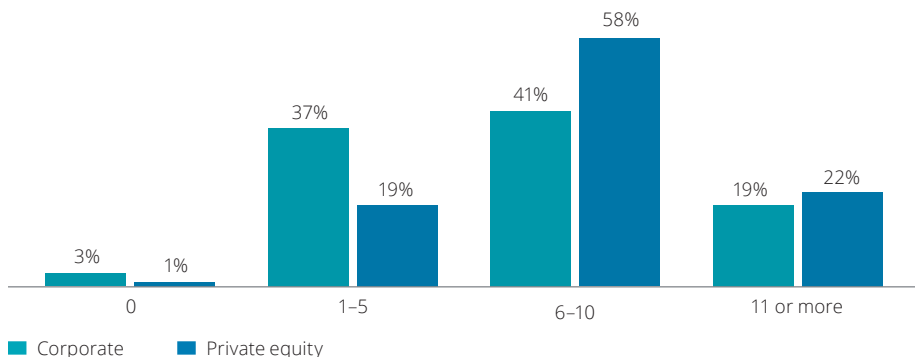
Far fewer respondents foresee the M&A boom abating. Only 25 percent of corporate respondents say deal flow will be the same as last year or expect fewer deals, down from 32 percent a year ago. On the private equity side, the numbers are even more dramatic, with only 12 percent anticipating flat-to-down activity, less than half the 25 percent that had anticipated a slowdown a year earlier.

These positive forecasts for more deals in 2019 are particularly striking because both corporate and private equity respondents said their organizations had picked up the pace significantly in terms of the number of M&A transactions closed during the past 12 months. Some 60 percent of corporate respondents closed six or more deals in the last 12 months, up from 50 percent a year ago. For private equity respondents, 80 percent closed at least six transactions during the year, a jump from 60 percent of respondents in just one year.

These survey results are particularly noteworthy given recent overall market results. Deal activity has unquestionably been strong—with the US on a near-record pace for M&A activity through the first three quarters of 2018, with \$1.3 trillion<sup>1</sup> in aggregate deals announced. That is a 50 percent increase in activity compared to the first nine months of 2017.<sup>2</sup> That said, the actual number of transactions declined almost 12 percent from a year ago.<sup>3</sup>

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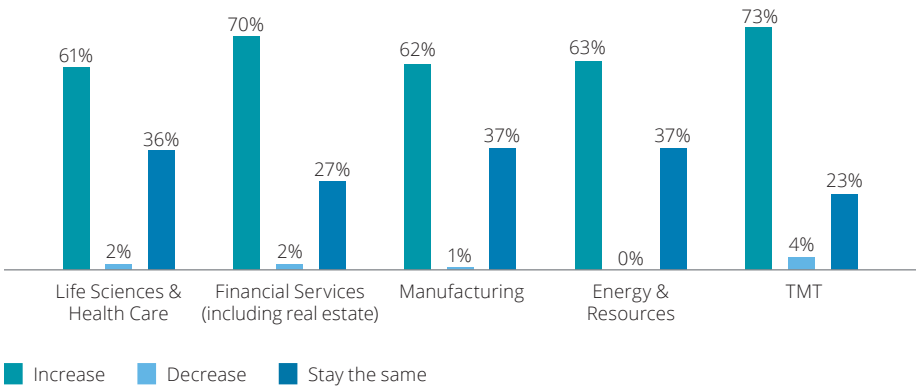
M&A transactions closed in the past 12 months



## Size

Expectations are also high for bigger deals in the year ahead: 70 percent of respondents anticipate the average enterprise size of transactions in the next 12 months will exceed those in 2018. That is up from 63 percent a year earlier, with private equity respondents slightly more optimistic on increased deal size than their corporate counterparts. Meanwhile only 28 percent of respondents expect deal size to hold steady, down from 34 percent a year earlier. On the corporate side, Technology, Media, and Telecommunications (TMT) respondents were the most bullish of the respondents sorted by sector.

Deal size expectations by industry



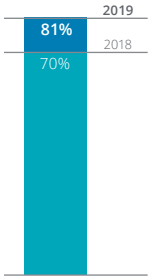
Both corporate and private equity respondents cite a significant increase (51 percent in this year compared to 38 percent from last year) in the total annual dollar value of deals between \$500 million and \$10 billion. Not surprisingly, the bigger the companies, the bigger the appetite for larger-size transactions.



## Divestitures

Divestitures are on track to remain a critical component of M&A activity in 2019. More than 80 percent of the combined corporate and private equity respondents say they will sell units or portfolio companies in 2019, up from 70 percent a year earlier.

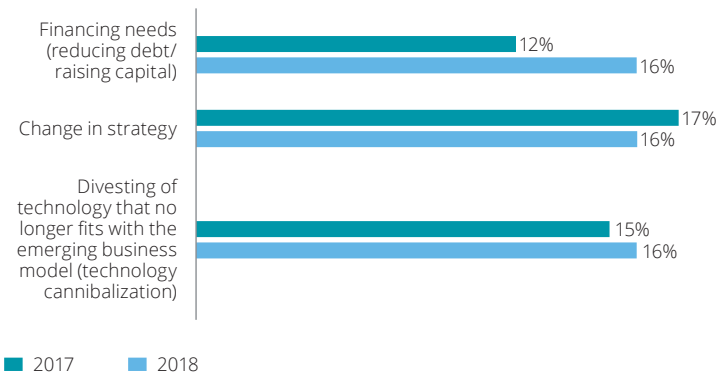
### Divestiture expectations



On the corporate side, survey responses were evenly distributed regarding their reasons to divest businesses, citing financing needs (16 percent), a change in strategy (16 percent), and the desire to shed technology that no longer fits their business model (16 percent).

For private equity firms, divestitures are, of course, a central part of their business model; and 90 percent of private equity respondents say they plan to shed assets in the year ahead. Of note: more private equity respondents expect to turn to initial public offerings (IPOs) for their portfolio company exits. IPOs are mentioned by 27 percent of respondents as the primary form of portfolio exits in the next 12 months, up from 19 percent a year earlier.

### Top reasons corporations cite for divesting a business



# Headwinds, obstacles, and M&A drivers

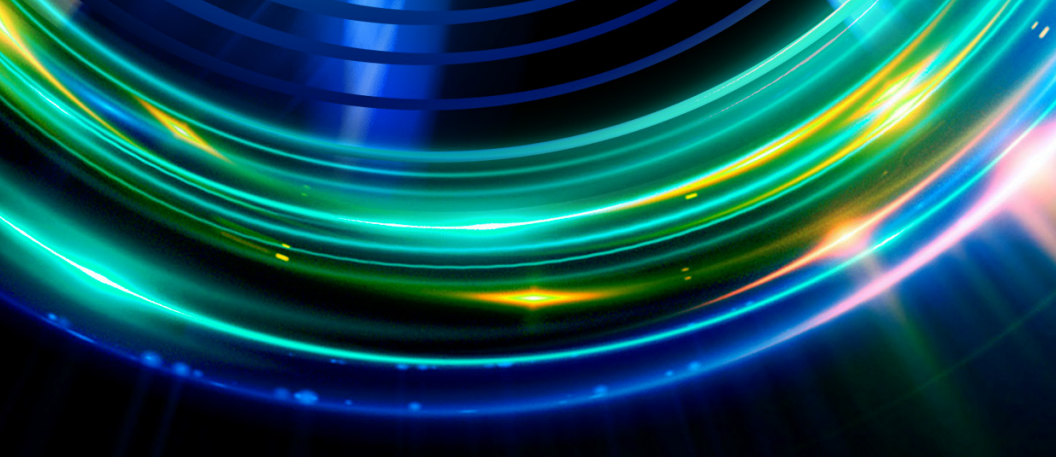
In our prior reports, global economic uncertainty, capital market volatility, and deal valuation ranked sequentially as the leading obstacles to M&A activity by corporate and private equity respondents, combined. While global economic uncertainty is still the No. 1 reason corporate respondents cite as an obstacle to M&A, all three of the aforementioned categories are cited by fewer respondents in our current survey, suggesting diminishing worries about these topics.

Potential delays in business-related legislation, rising interest rates, anti-trust issues, and activist shareholder activity all increased from our last survey as potential obstacles to M&A in the year ahead.

Eighteen percent of respondents cite global economic uncertainty as the top concern, down from 20 percent. This perhaps demonstrates the increased resiliency of companies and private equity firms to navigate through major global economic shifts and trade issues.

We asked specifically about trade and tariffs for the first time this year. For corporate respondents, 36 percent indicated that global trade uncertainty was causing reduced interest in deal making, while 9 percent said that uncertainty has actually increased the desire for deal making over the next 12 months.

For private equity respondents, 58 percent say that tariff negotiations will have some negative impact on operations, while 28 percent say it will not have much of an impact on those operations. More than half (55 percent) say that tariffs will have a negative impact on their cash flow in the year ahead.



Concerns about rising interest rates ticked up as having a potential impact for M&A in 2019. Forty-five percent of all respondents say that rising rates are a trigger to accelerate deal activity, perhaps to act before rates grow even higher, while 41 percent say that higher rates will slow their activity or reduce their ability to execute deals. With broad consensus among market observers that rates will climb higher,<sup>4</sup> this likely is an area worth focusing on as a larger potential obstacle down the road.

Also noteworthy: When asked about their top obstacle to pursuing, financing, and closing deals in the next 12 months, the biggest private equity firms (with funds of at least \$3 billion) cite their greatest concern (32 percent) as potential delays in key business-related legislation. This is double the overall result of all private equity responses (16 percent).

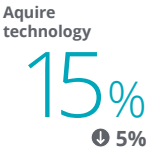
### **Tax Reform**

Turning to deal drivers, there is consensus that tax reform has helped grease the wheels for more deals. More than half (53 percent) of combined corporate and private equity respondents say that tax reform provides them with additional capital to facilitate transactions. Only one in four (26 percent) say that repatriating capital from overseas markets dims their enthusiasm for striking cross-border deals. Meanwhile, only 9 percent say their interest in deal making has diminished because of the potentially negative impact of tax legislation on the benefits of borrowing.

# Strategic drivers

## What did corporate respondents tell us about their M&A strategy over the next 12 months?

### Most important aspect of corporate M&A strategy



In this year's survey, we see a shift in responses about what constitutes the most critical aspect of a corporation's M&A strategy. Last year, corporate respondents ranked acquiring technology assets as the No. 1 strategic driver for their M&A deals in the year ahead. Survey data shows a decline (15 percent this year vs. 20 percent last year) among corporate respondents who say acquiring technology is the most important aspect of their company's M&A strategy. Instead, corporate respondents are most focused on deals to expand their customer bases in existing geographic markets or to expand and diversify their products and services.

So, what's driving this change? We asked a few of our M&A TMT industry leaders to shed light on this shift, and here's what they had to say:

For a number of years, corporations have been on a buying spree when it comes to acquiring underlying technology, but the price of tech is on the rise. Based on the latest survey results, there may be a pivot away from purchasing a company simply for its technology (survey results this year show a 5 percentage point decrease). Instead, in the next 12 months, corporate respondents note an increased focus on buying a company in order to expand within existing geographic markets (1 percentage point increase compared to last year's data), enter into a new geographic market (1 percentage point increase compared to last year's data), or expand / diversify products or services (3 percentage point increase compared to last year's data). If you consider the de-emphasis of acquiring technology by respondents' industries, TMT accounts for the largest drop (this year, 17 percent of TMT respondents selected "acquire technology" compared to 32 percent last year).

Separately, 19 percent of corporate respondents say they're seeking major transformational deals now to take advantage of favorable opportunities (up from 17 percent last year), while 14 percent say they're seeking smaller strategic deals (down 1 percent from last year).

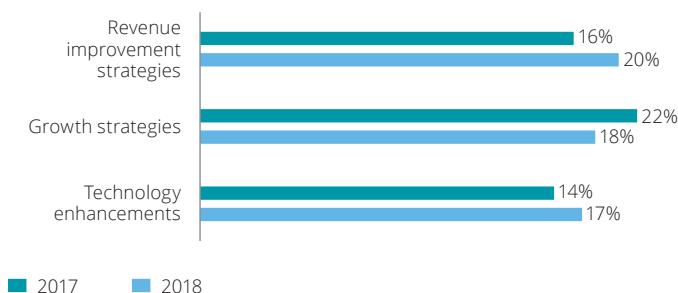
This year for the first time, we offered corporate respondents the opportunity to select acquiring talent as the primary corporate driver for M&A, and 12 percent say that factor will be their main motivation for striking deals in the year ahead.

Thirteen percent of corporate respondents cited developing or expanding digital capabilities as being part of their company's M&A strategy over the next 12 months, down from 16 percent last year.

We asked private equity investors to tell us what they believed was the biggest impact they were making to improve their portfolio companies. Twenty percent (up from 16 percent last year) of leaders at these firms cite revenue improvement strategies as an area where they can most successfully impact their portfolio companies, followed by helping with growth strategies (18 percent this year, down from 22 percent last year) and technology enhancement (17 percent this year, up from 14 percent last year). Separately, 66 percent of private equity respondents anticipate a greater focus on bolt-on acquisitions in 2019 (compared to 60 percent last year).


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#### Private equity investor's biggest areas of impact on portfolio companies



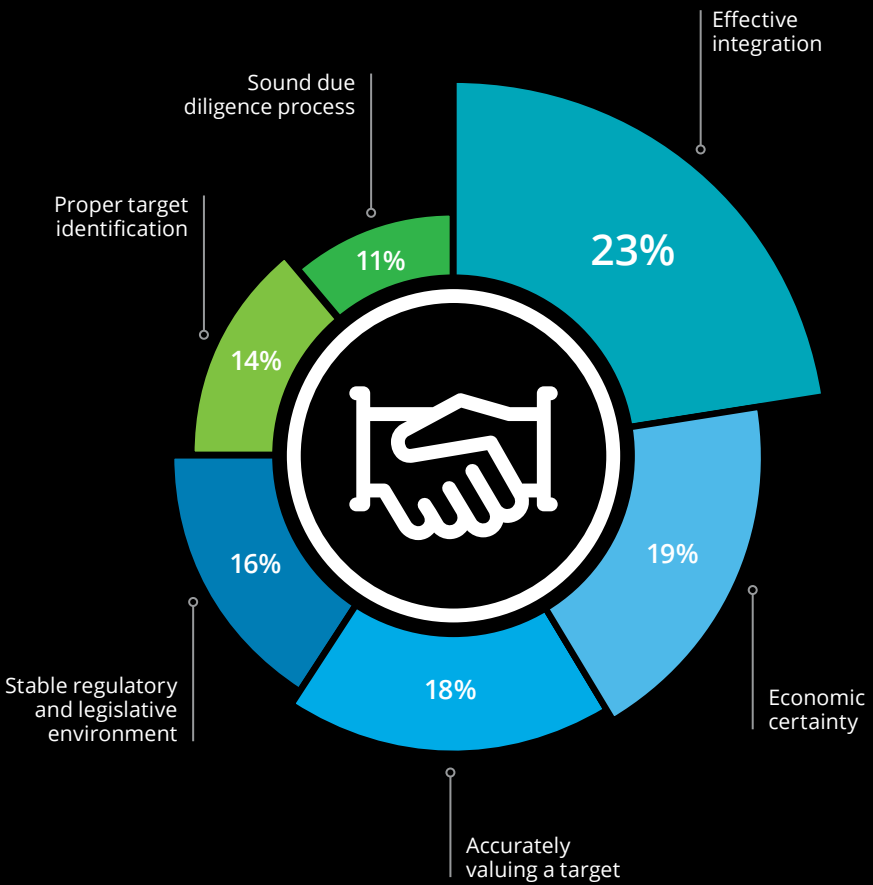
# Deal success

What makes a deal successful? Drilling down into the survey responses, we see that both corporate and private equity respondents continue to rank effective integration as the single most important factor that leads to a successful transaction (23 percent this year, up from 21 percent last year). Economic certainty (19 percent this year and last year) and accurate target valuation (18 percent this year, down from 20 percent last year) are the next two critical elements to a deal's success. Interestingly, the bigger the corporation, the bigger the concern on properly identifying targets. There is also a notable increase (16 percent, up from 13 percent last year) in respondents who cite regulatory and legislative stability as key factors in successful deals.



About 40 percent of survey respondents say that half their deals fail to generate the value they expected at the onset of a transaction. So, why don't some deals work? The most common factor cited was economic forces—but there is a drop—38 percent, down from 43 percent—on those who pin the blame for floundering deals on outside factors. About one-third of corporate respondents concede that expected sales failed to materialize and an increasing number of respondents (32 percent this year, up from 27 percent last year) say there are gaps in integration execution during the acquisition. There is also an increase in corporate respondents who say they lack a well-defined strategy (24 percent this year, up from 18 percent last year) and those who claim due diligence was inadequately performed (23 percent this year, up from 19 percent last year).

Most important factor in achieving a successful M&A transaction

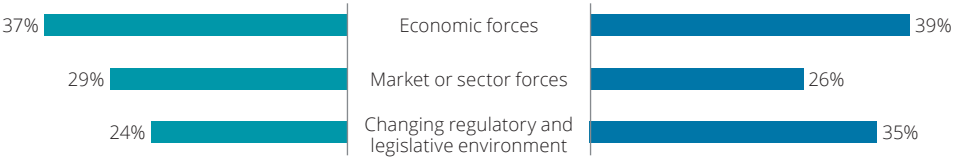


For private equity respondents, economic forces also lead the list of reasons for why deals failed to generate expected value. There's also a sharp increase in respondents (35 percent this year, up from 26 percent a year earlier) who place blame on the changing regulatory and legislative environment.

In addition, there's a surge in private equity respondents who claim that deals underperform because they fail to achieve revenue synergies (29 percent, up from 19 percent a year ago) or because the parties involved fail to align culturally (19 percent, up from 14 percent in a year).

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

External factors



Internal factors

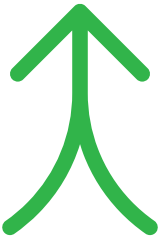


■ Corporate ■ Private equity





# Industry convergence



For several years now, we have asked respondents the following question: *Thinking about industry convergence as a possible trend in the coming two years, which two industries do you think will be the most likely to converge?*

In this year's survey, respondents selected banking and securities as the most likely sector to experience convergence, followed by energy and resources, asset management, and technology. So what do respondents who chose one of these top sectors predict they will converge with? We see some anticipated consolidation within related sectors, and some predicted convergence with sectors in generally unrelated industries. See the following graphic for the top three selections for convergence in sequential order:

## Which industries are converging

### Banking and securities



Asset management



Private equity



Energy and resources

### Energy and resources



Construction



Manufacturing



Banking and securities

### Asset management



Banking and securities



Private equity



Technology

### Technology



Manufacturing



Telecommunications



Energy and resources

As in past years, some of these convergence predictions are not surprising, as they continue a trend toward vertical integration and consolidation within industries. Other suggested areas for possible combination were less obvious.

In terms of some of the more interesting results, we saw the following:



- A big jump this year in the number of total respondents who predict banking and securities will merge with energy and resources (five times as many respondents anticipate these sectors will converge compared to last year).



- Similar to what respondents anticipated last year, those who chose energy and resources selected construction and manufacturing as the top two areas likely for convergence with that sector.

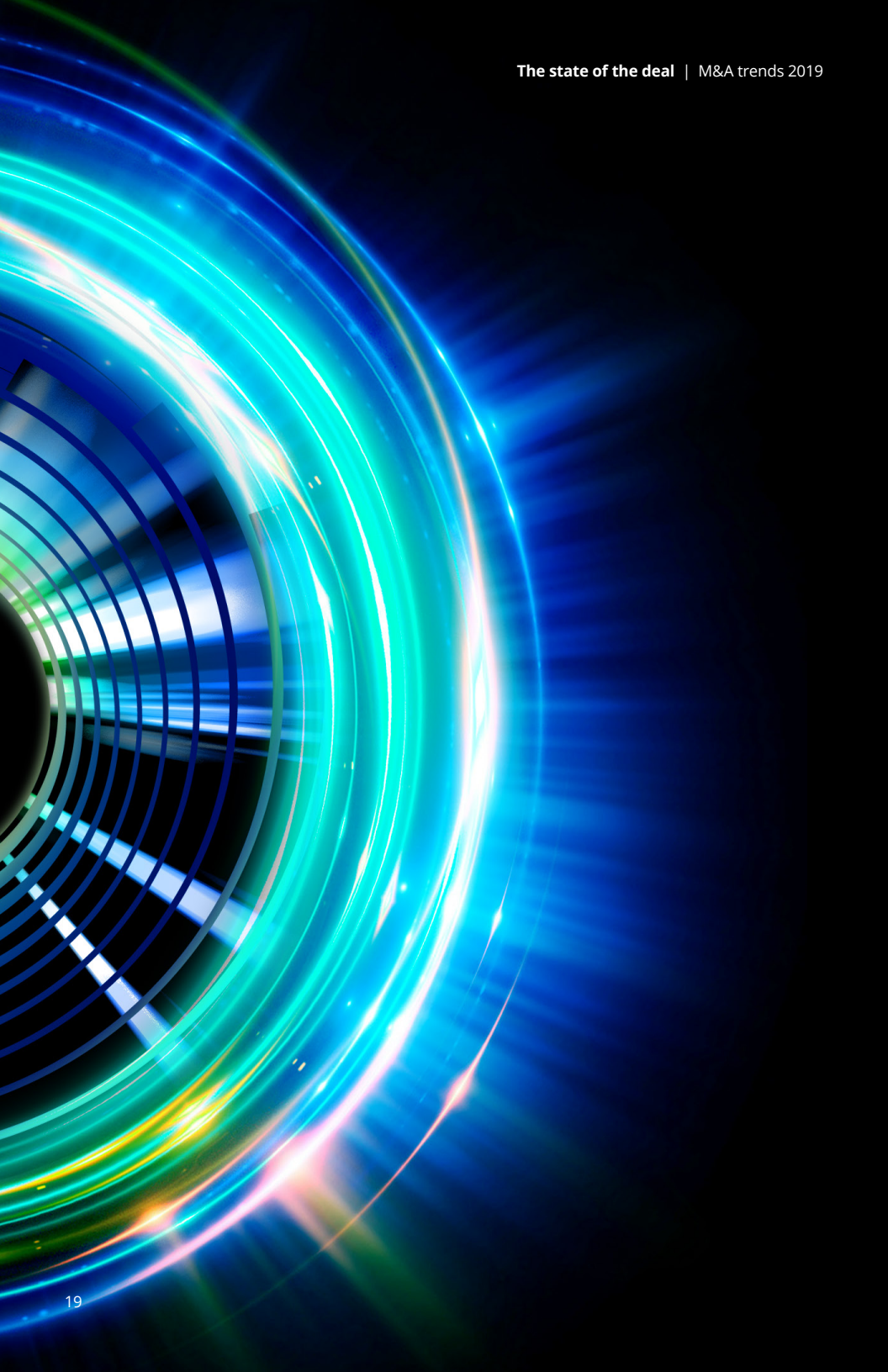


- Overall, fewer respondents say they anticipate companies in the technology industry to be involved in transactions with those in other industries in 2019, a decline in expectations for industry convergence from what we saw last year. That said, there are some notable shifts in the data this year to note.
  - We saw a significant uptick in the number of respondents who predict asset management and technology will converge (four times as many respondents selected the pairing this year compared to last).
  - While respondents last year and this year alike predict technology will merge with manufacturing, this pairing came out as the clear winner this year. Interestingly, the number of respondents who selected technology and telecommunications as a pairing dropped by more than half in this year's survey, despite it remaining a top area of expected convergence overall.



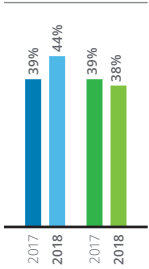
- Health care providers dropped in the rankings this year as an area for potential convergence. Of respondents who do anticipate movement in health care provider services, a majority of convergence is expected with health care plans. We do see a spike this year (nearly triple) in respondents who selected health care providers and asset management as the two industries most likely to converge.

From what we see in the marketplace, industry convergence and sector consolidation will continue to have an impact on M&A strategy, targeting, and transaction activity in the year ahead.



# Looking abroad

## Increased investment in Canada



## Increased investment in China



About 33 percent of all respondents say that at least half of their M&A deals involve acquiring targets operating principally in foreign markets. While US-based investors say they will continue to look abroad for deals, the areas of geographic interest appear to be shifting as more executives are looking to Asia.

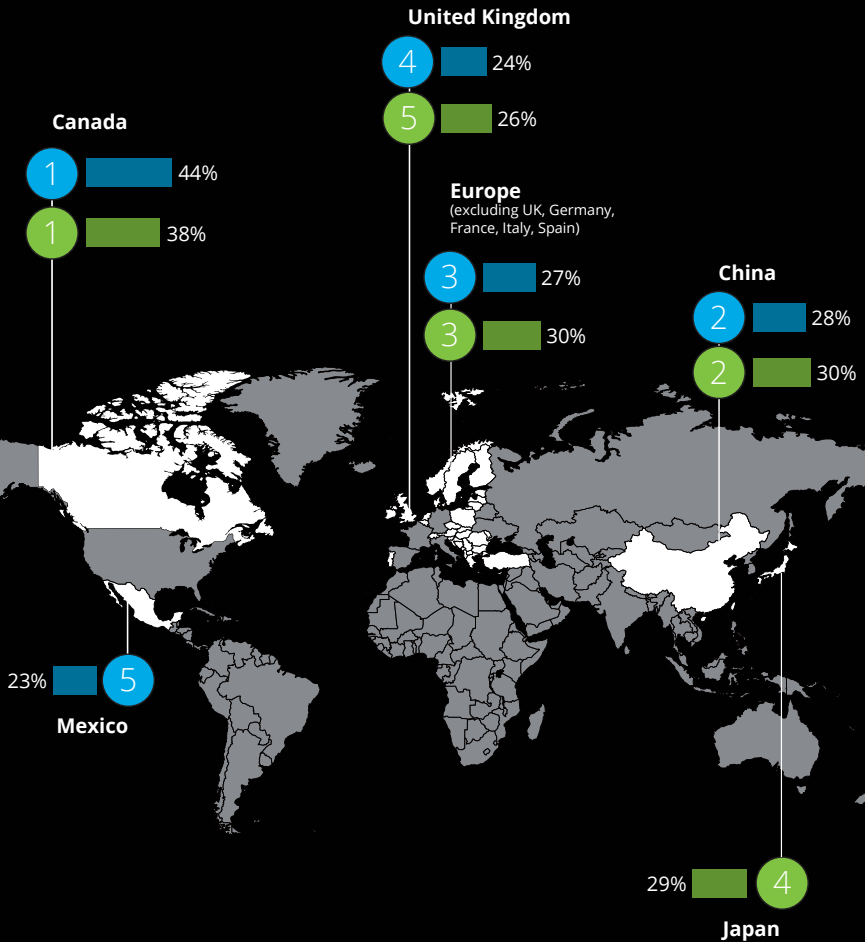
It is interesting to note that both Canada and China were the two top foreign markets listed at a time when the US was engaged in tough trade negotiations with these countries. Canada again tops the list of likely targets for cross-border M&A, with more than 42 percent of respondents selecting our neighbor to the north as the market in which they are most likely to pursue a target. Corporate respondents are slightly more bullish on Canada than private equity respondents (44 percent to 38 percent, respectively).

Interest among corporations doing deals in China grew to 28 percent, up from 20 percent last year. But the real uptick is on the private equity side, as 30 percent of respondents selected China as a likely market for deals in the year ahead, triple the 10 percent who cited China a year earlier.

There are other countries where interest in deal making is expected to pick up. Europe (excluding the United Kingdom [UK], Germany, France, Italy, and Spain) is the third most cited target, followed by Mexico and Central America.

On the flip side, interest wanes for UK deals as Brexit continues to loom large. Fewer than one in four respondents picked the UK as a likely target for deals in 2019. The decline in interest is particularly notable from corporate respondents; last year 31 percent picked the UK as a likely place to make deals, ranking it as No. 2. This year, only 24 percent cite the UK as a locale for making deals in 2019, ranking it fourth among potential foreign locations.

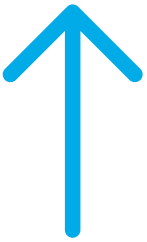
# Which foreign markets are you most likely to pursue?



● Corporate executives    ● Private equity investors



# Cash, financing, and multiples



More than two-thirds of corporate respondents say their cash reserves have increased over the past two years, and a plurality of these respondents say that they primarily intend to use that cash to strike M&A deals.

Among corporate respondents, 69 percent say they have more cash on their balance sheet than they did two years ago, up from 65 percent in last year's survey.

69%  
of corporate  
respondents  
report  
more cash  
reserves

Predominately, corporate respondents say that they will seek M&A opportunities with that cash, as 35 percent cite striking deals as their leading intention. That's down from the 40 percent who said last year that they would use their cash to finance deals. There was a sharper decline (23 percent, down from 33 percent of corporate respondents a year earlier) in those who say they intend to use the excess cash on their balance sheet to invest organically in their business. While this might indicate a shift in strategy, it is important to note that we added a new option for respondents to consider this year—using their excess cash reserves to pay down debt. And 13 percent of respondents selected that as the top intended use for cash.

#1  
primary  
intended  
use of that  
cash is to  
fund M&A  
deals

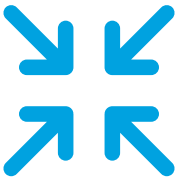
In addition to companies having more cash reserves (and primarily intending to use it to finance transactions), many have additional financing firepower in the form of the capital markets. Stocks, despite a spike in volatility, were close to record-high levels when the survey was conducted. And interest rates, while trending higher, are only modestly above historical lows, making debt financing an appealing option, at least by historical standards.<sup>5</sup> Separately, almost two-thirds of private equity respondents say that they are financing a larger portion of portfolio senior leverage with nonbank debt.



As for transaction multiples, corporate respondents anticipate stronger numbers across the board, with 37 percent of respondents saying they expect higher multiples. More than half (53 percent) of private equity respondents say they anticipate higher multiples in the year ahead, with 10 percent saying that multiples will be much higher.



# Conclusion



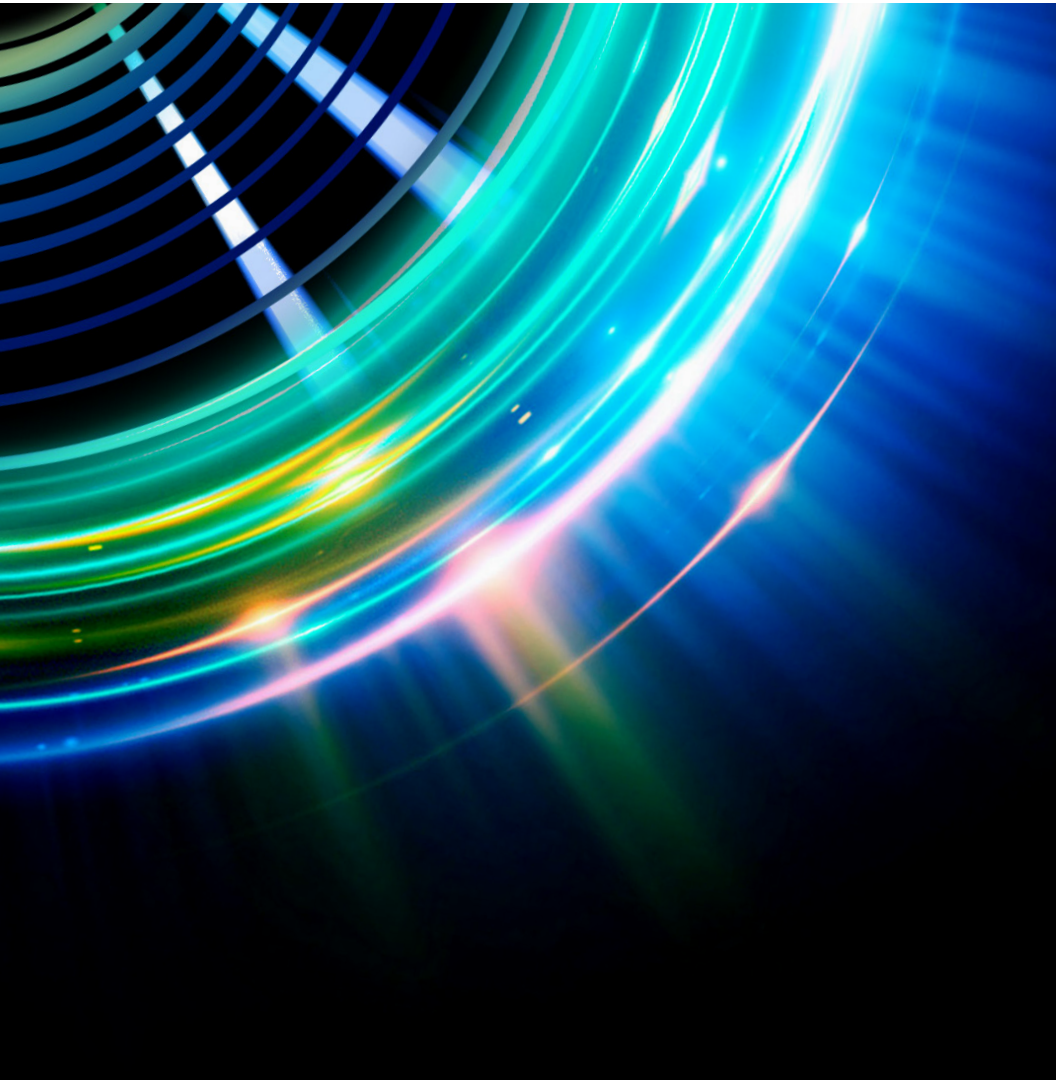
The number of corporate and private equity respondents that anticipate the current level of M&A activity to continue or even grow in 2019 is quite large—almost 90 percent.

There is a confluence of factors that support the expectations revealed by our survey respondents. Tax legislation and a looser regulatory environment helped keep M&A strong in 2018, as did a relatively strong stock market and cheap financing. On the flip side, there is concern that economic forces could shift, or that the impact of tariffs or other legislative and administrative activity in Washington, DC, and abroad could curb deal activity in the near term.

Looking ahead to 2019, it appears that executives increasingly are interested in divesting businesses. There is also an uptick in those interested in striking deals in China. Interestingly, M&A executives seem less focused on making acquisitions to secure new technology and instead want to boost their geographic footprint as well as broaden their products and services for their businesses.

Corporate and private equity respondents also remain laser-focused on making deals work, as a sizeable chunk fall short of achieving the results initially envisioned. They pin the most blame on external factors for the deals that do not work out—but recognize the need for more effective due diligence and integration and focus to ensure revenue projections materialize.

M&A transactions have evolved in meaningful ways since we first started our trends surveys five years ago. M&A has increasingly become an integral way in which companies grow, expanding their franchise into new markets and with new customers, consolidating with rivals and adding new capabilities and opportunities. Our survey respondents do not believe that will abate in 2019.



# Endnotes

1. Thomson Reuters report: First Nine Months 2018 | Mergers & Acquisitions | Financial Advisors
2. Thomson Reuters report: First Nine Months 2018 | Mergers & Acquisitions | Financial Advisors
3. Thomson Reuters report: First Nine Months 2018 | Mergers & Acquisitions | Financial Advisors
4. Reuters, "Wall Street sees two more Fed hikes in 2018, three in 2019: Reuters poll," <https://www.reuters.com/article/us-usa-fed-poll/wall-street-sees-two-more-fed-hikes-in-2018-three-in-2019-reuters-poll-idUSKBN1J935L>
5. FRED Economic Research, <https://fred.stlouisfed.org/series/FEDFUNDS>

# About the survey

Between September 4 and September 14, 2018, a Deloitte survey conducted by OnResearch, a market research firm, 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 the upcoming 12 months as well as their experience with recent transactions.

All survey participants work either in private or public companies or private equity firms with annual revenues of at least \$10 million. The participants hold senior ranks (at least director level) in their firm and all are involved in M&A activity.

The corporate respondents represent more than 20 industries; technology, construction, manufacturing, and financial services account for more than half the total in aggregate. Slightly more than half of the corporate respondents (54 percent) work for privately held companies. Almost one-third of the respondents 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. Twenty-five percent work at funds with more than \$3 billion in assets and 18 percent work at funds with less than \$500 million. One-quarter of the private equity firms have more than 40 companies in their portfolio; one-third have fewer than 20 companies.

# 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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