

Uncertainty is the “new normal”

Deloitte M&A Index

Outlook for 2017

Contents

Uncertainty is the “new normal”	01
Slowdown in global trade is mirrored by growth of the digital economy	04
Economy of expectations	05

"Once uncertainties subside, M&A tends to pick up rapidly."



Uncertainty is the “new normal”

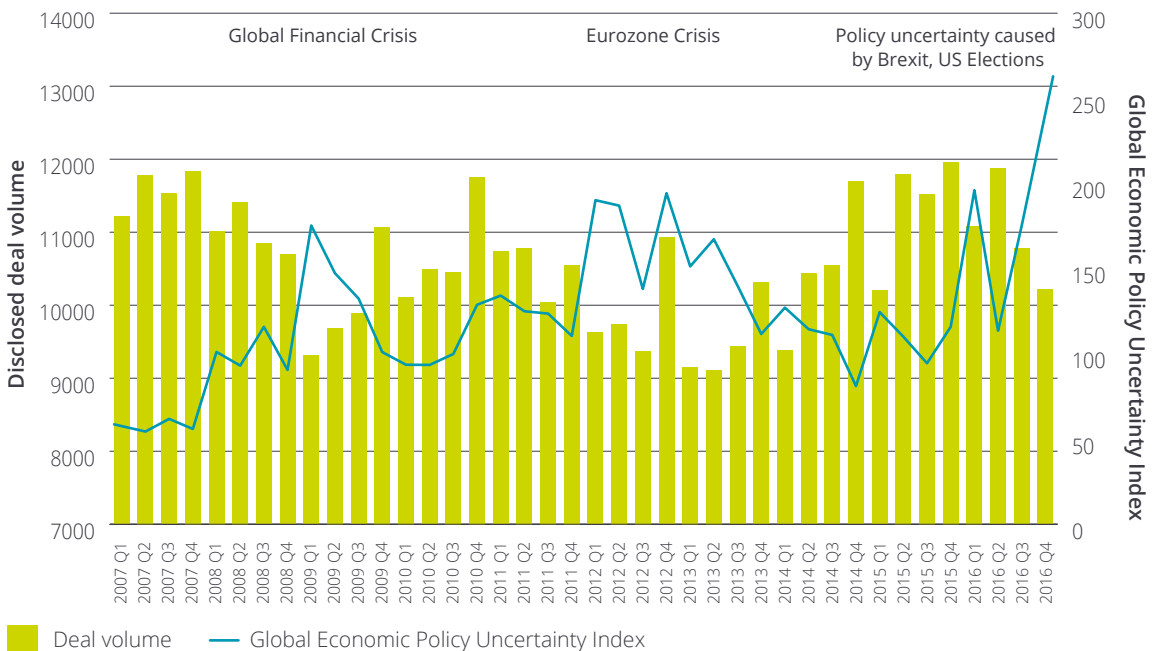
In 2017, uncertainty is set to be a central theme. There will be major elections across Europe, policy announcements from the newly-elected US government and progress in the UK’s exit negotiations with the EU. The global impacts of the new US government will be carefully studied and weighed.

Uncertainty tends to drag on corporate confidence and our analysis shows policy uncertainty and M&A deal flows are inversely correlated. Unsurprisingly, during the financial crisis, Eurozone debt crisis and Brexit, there was a slowdown in M&A. However, there is clear evidence to suggest that once uncertainties subside, M&A tends to pick up rapidly.

Uncertainties also create opportunities. M&A is inherently a long-term strategy and so we expect deal-makers will come to terms with uncertainty as a “new normal” parameter and focus on its potential to create opportunity. Bold, decisive moves in such times can potentially result in some of the most successful periods of deal-making for companies.

“Bold, decisive moves in such times can potentially result in some of the most successful periods of deal-making for companies.”

Figure 1: Global M&A deal volumes vs uncertainty: quarterly



Source: Bloomberg, Deloitte Analysis, Economic Policy Uncertainty ⁷⁰

Figure 2: Uncertainty is the 'new normal'



Political elections and economic policy uncertainties



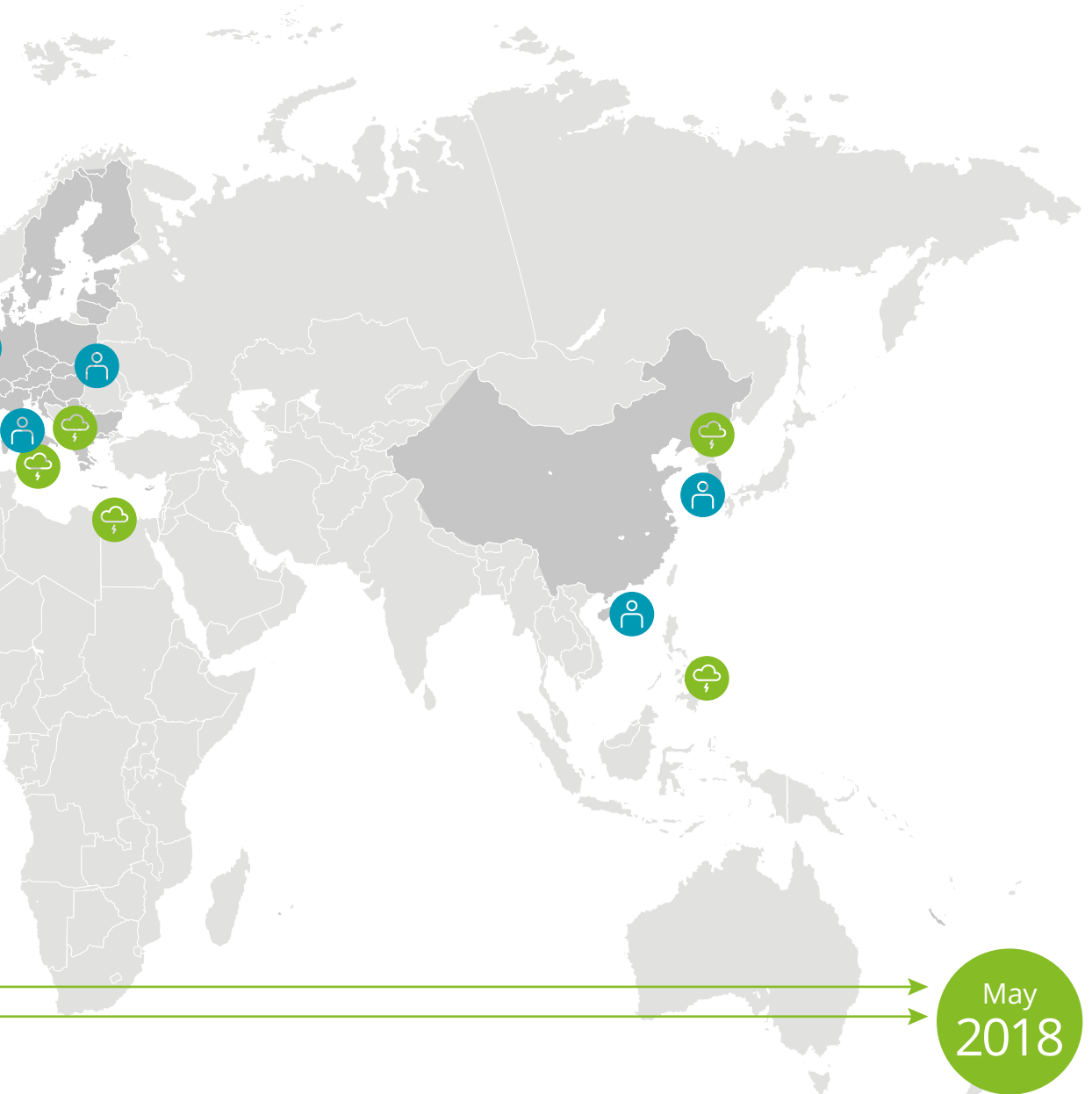
Political tensions and humanitarian crisis



Source: Deloitte analysis

"Uncertainty is an uncomfortable position.
But certainty is an absurd one."

Voltaire



German federal election
(Oct 2017)



South Korean presidential election
(Dec 2017)



Hungarian parliamentary election
(before Spring 2018)



Italian general election
(before May 2018)





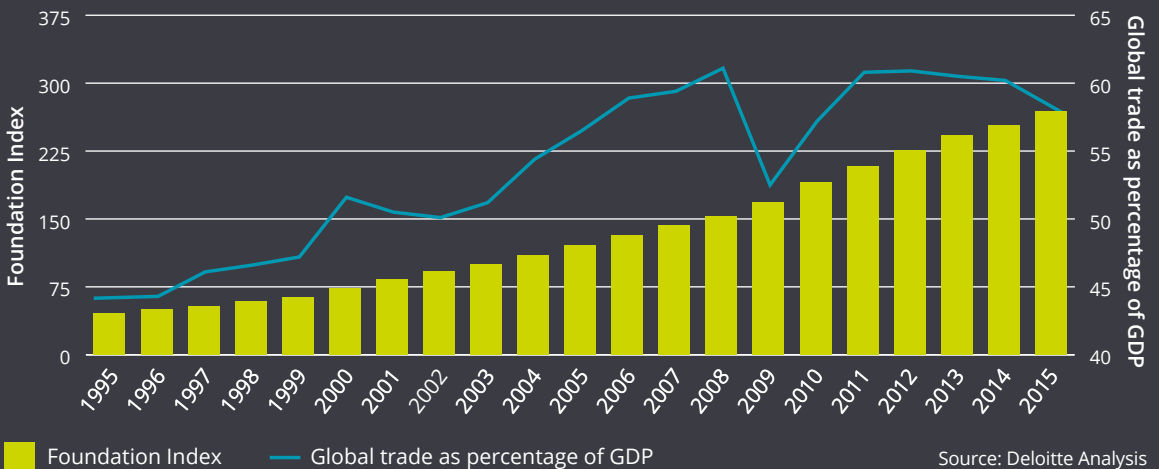
Slowdown in global trade is mirrored by growth of the digital economy

Since 2011, there has been a slowdown in global trade. There are many reasons for this, including synchronised weakness in economic growth across regions, lack of capital investment, and a decline in global value chains. An important factor has been the transition of the Chinese economy from export-led to consumption-driven growth. China is also producing more of its intermediate inputs domestically, affecting global trade volumes and global prices.

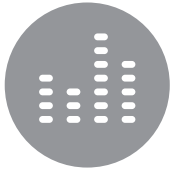
At the same time, the pace of digital change is impacting every aspect of the economy. The Deloitte Foundation Index is one measure of this change – and it has been rising steeply over the past two decades. It shows the cost/performance ratio of core digital technology improving exponentially. There have been greater flows in cross-border digital technologies which are enabling new business models and ways of working that could increase productivity.

This means companies across all sectors will need to recalibrate their global market, customer base, supply chain, business investment and operational strategies to reflect the new paradigm. We expect this reorientation will provide a boost to M&A activities. On the one hand, we can expect deals where companies try to leverage their economies of scale and realign their global supply chains to position themselves for this shift. On the other, the acceleration towards digital business models means companies are also likely to acquire innovative technologies and businesses that will help them adapt quickly to this changing environment.

Figure 3: Deloitte Foundation Index, Global Trade as % of GDP



Source: Deloitte Analysis



Economy of expectations

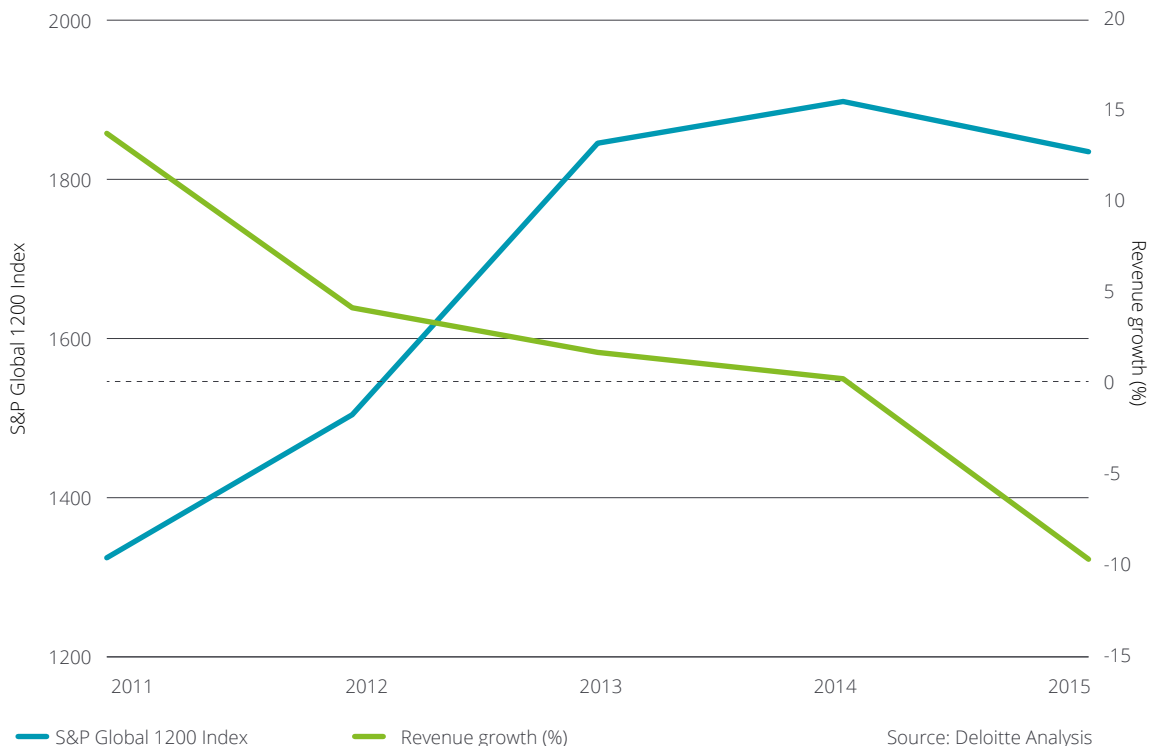
Against this backdrop, even as the S&P Global 1200 index has hit new highs in the last few years, the annual revenue growth for its constituents has been declining for three consecutive years.

The 2014-2016 M&A wave was dominated by consolidation plays. However, falling revenue growth means investors will scrutinise future deals more closely for their revenue growth potential.

“Falling revenue growth means investors will scrutinise future deals more closely for their revenue growth potential.”

Companies will no doubt need both to invest and acquire new capabilities to tap into the opportunities of disruptive innovation, which means in the coming months they are likely to do smaller, more strategic deals with strong growth upsides.

Figure 4: S&P Global 1200 index share price vs revenue growth rate



Contacts



Iain Macmillan
Managing Director –
Global M&A Services
+44 (0)20 7007 2975
imacmillan@deloitte.co.uk



Sriram Prakash
Global Lead, M&A Insights
+44 (0) 20 7303 3155
sprakash@deloitte.co.uk

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/ about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2017 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. J10516