



M&A Trends

Year-end report 2016

About this report

This report is the result of a survey of 1,000 executives to gauge their expectations for M&A activity in 2017 and to better understand their experience with prior transactions.

All survey participants work in either private or public companies or private equity firms with annual revenues of \$10 million or greater. The participants consist of senior executives (director-level or higher) involved in M&A activity. One-third of corporate respondents work in the C-Suite, while half of private equity respondents are involved in fund management.

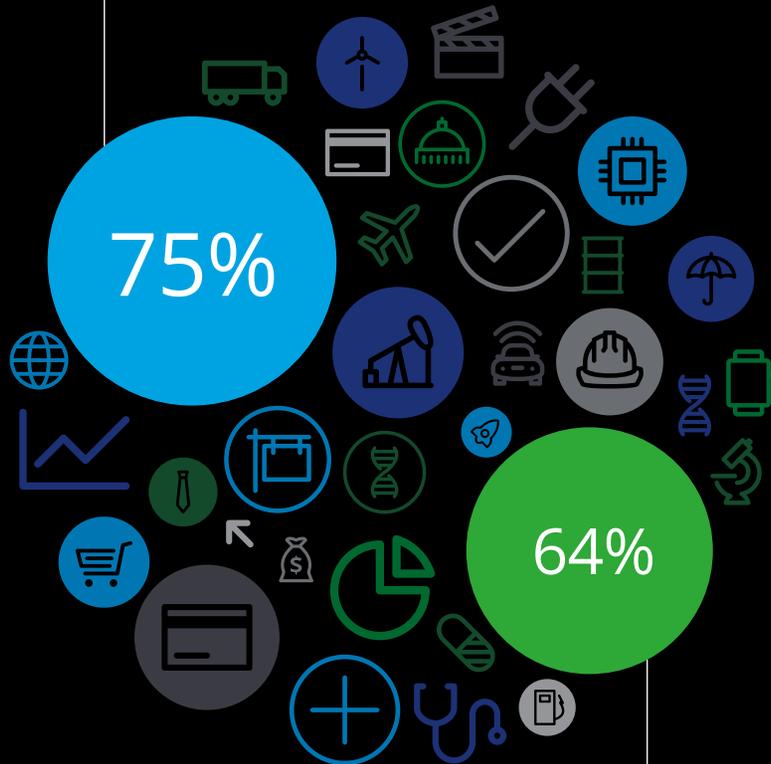
i For more detailed information about this report see:
About this survey (page 23)

Executive summary	03
Deal characteristics	08
Industry convergence	12
Headwinds	14
Impediments to success	16
Looking abroad	18
Strategic drivers	20
Cash is king	21
Meet the team	22
About the survey	23

Key findings

Deals on the rise in 2017

Seventy-five percent of all respondents expect deal activity to increase in 2017.



Bigger deals in 2017

Sixty-four percent of corporate survey respondents expect deal size to increase in 2017.

Executive summary

While 2015 was a record year for combinations, 2016 started with a thud, and results lagged for the first three quarters of the year. But in October, US companies unleashed an unprecedented wave of deals, making it the busiest month ever for domestic mergers and acquisitions (M&A). Will this momentum be sustained? According to the results of our newest survey of 1,000 corporate executives and private equity investors, activity is poised to accelerate, perhaps significantly, extending the increase in deal-making seen during the final months of 2016—and potentially reversing the slide of the early part of the year.

The executives we surveyed indicated several reasons for optimism. For starters, many report they have strong strategic imperatives driving their desire to do deals in 2017. Meanwhile, stock prices remain close to record-high levels, and interest rates, despite the forecast for an increase, remain near or at historic lows, and more companies say they have increased cash levels and intend to use their cash to strike more deals.

What's in store for mergers and acquisitions in 2017?

Key findings

Integration planning
Effective integration planning remains the number one factor to ensure that deals work.



Divestitures are on the rise
Seventy-three percent of respondents say they plan to shed businesses next year, compared to only 48% of respondents in our mid-year 2016 report.

The survey data provides valuable perspective and a foundation for M&A expectations as we enter 2017. We will also continue to monitor the US presidential transition and potential implications for the M&A baseline established by the survey.

Optimism among executives is high. More companies say they have increased cash levels and intend to use their cash to strike more deals.

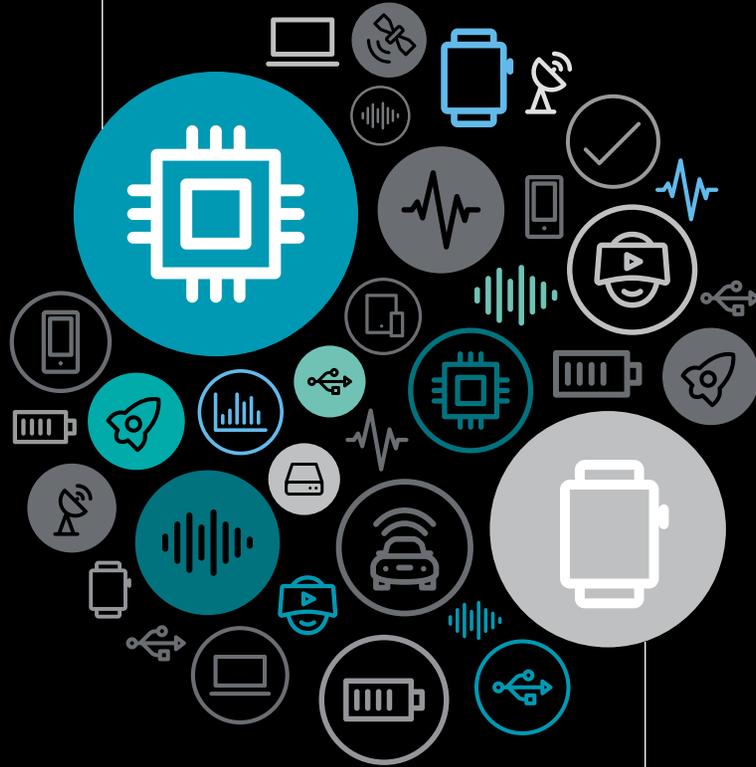
Key findings include:

- Seventy-five percent of all respondents expect deal activity to increase.
- Transactions may be bigger—64 percent of corporate survey respondents expect deal size to increase.
- Divestitures may be a major focus in 2017. Seventy-three percent of survey respondents say they plan to shed businesses next year. (Up from 48 percent in our [mid-year 2016 M&A Trends Report](#).)
- Effective integration planning is considered the number one factor in ensuring that deals work.
- Acquiring technology assets has surged in importance as a top strategic driver of M&A.
- Industry convergence is a major theme, with consolidation rampant in related sectors. Many acquirers are looking to technology companies to position themselves for the future.

Key findings

Technology acquisition

Acquisition of technology assets surges in importance as a top strategic driver of M&A, tying for second with expanding customer bases and slightly trailing product or service diversification.



Industry convergence

Industry convergence remains a major theme, with consolidation rampant in related sectors and acquirers looking to technology companies, among others, to position themselves for the future.

These are only a few of the important insights uncovered in our latest survey. Inside, we take a closer look at other deal characteristics, the obstacles that could suppress deal activity in 2017, ongoing challenges in realizing the anticipated value of deals, and the outlook for deal making in foreign markets.

Consider this report to be a foundation for your decision making today.

As always, our goal is to provide the insights you need to help make sure your next transaction is successful. Consider this report to be a foundation for your decision making today—and know that we are monitoring the impact of ongoing developments such as the US presidential transition and Brexit planning as they unfold.

Russell Thomson

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

The vast majority of respondents project that 2017 will mark a rebound in M&A activity. Seventy-one percent of corporate respondents and 86 percent of private equity

Deal characteristics

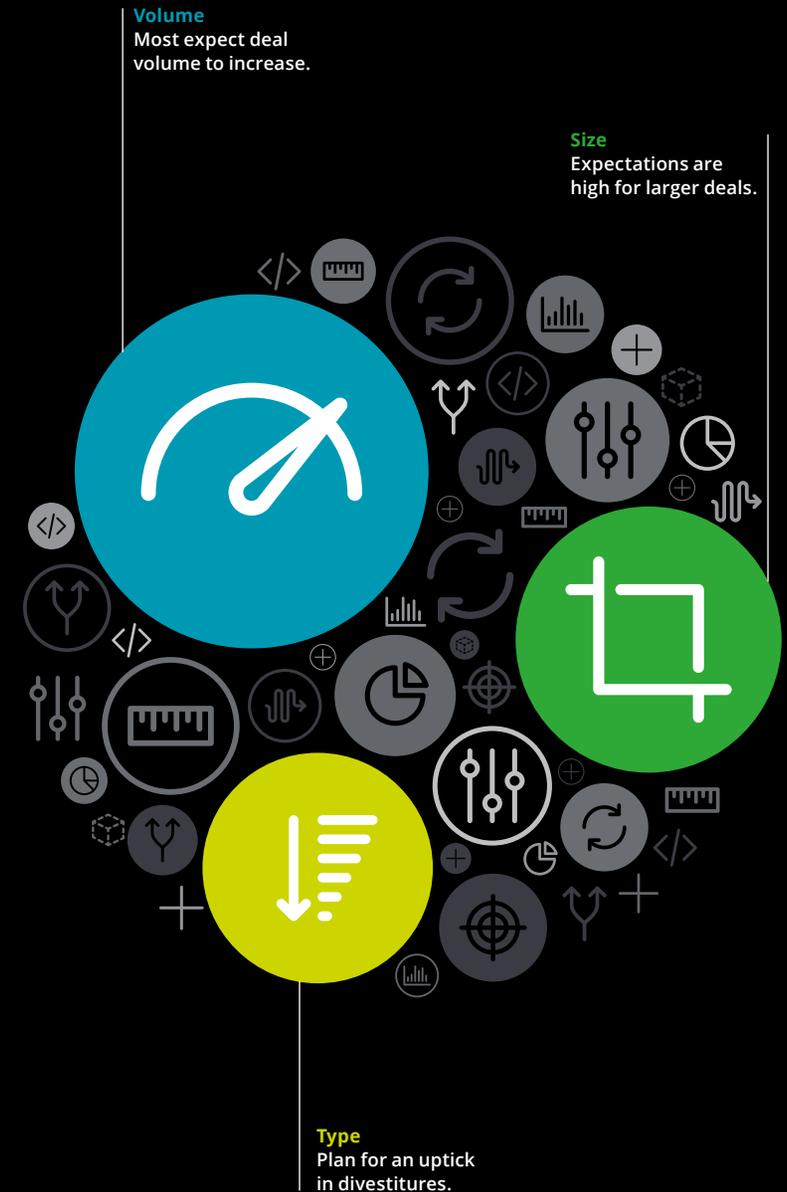
investors anticipate an uptick in transactions. An overwhelming majority of those surveyed expect activity to stay the same or ramp up, while only three percent foresee deal flow slowing in 2017.

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

Private equity investors



Corporate executives



Volume

Overall, 23 percent of respondents anticipate a significant increase in deal volume in 2017—slightly more on the corporate side (24 percent) than private equity investors (20 percent). To put that in perspective, 60 percent of respondents say they closed at least six deals in the past 12 months, and 21 percent closed more than 11. The aggregate value of the deals closed in the past year exceeded \$1 billion for about three in ten respondents (29 percent).

While the expectation for a significant increase in deal activity is split fairly evenly among corporations of all sizes, larger private equity funds significantly outpace smaller funds in anticipating a big bump in deal activity. More than 31 percent of respondents from private equity funds larger than \$1 billion say they expect a significant increase, compared to only nine percent of those at funds smaller than \$1 billion. Private equity respondents also expect a greater focus on bolt-on acquisitions to their existing portfolio companies in the next year (56 percent expect an increased focus on platforms with planned bolt-on acquisitions to build scale).

Size

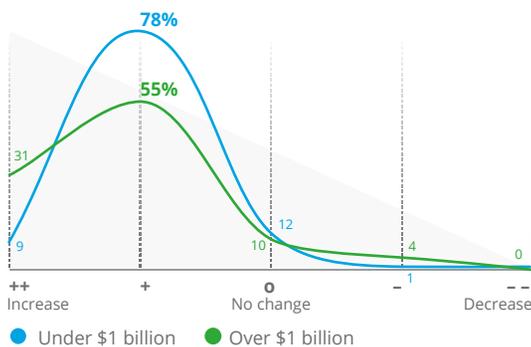
Not only does the survey show that M&A activity is poised to rebound in 2017, but expectations are high for larger deals: 64 percent of current respondents say they anticipate the average size of transactions in 2017 will exceed the size of transactions in 2016. Ninety-seven percent believe that deal size will either be the same or increase in the year to come.

Do you expect the enterprise size of your firm's deals to increase or decrease over the next 12 months?



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

Private equity investors



Percentage of private equity investors who say they expect the average number of deals to increase significantly



Type

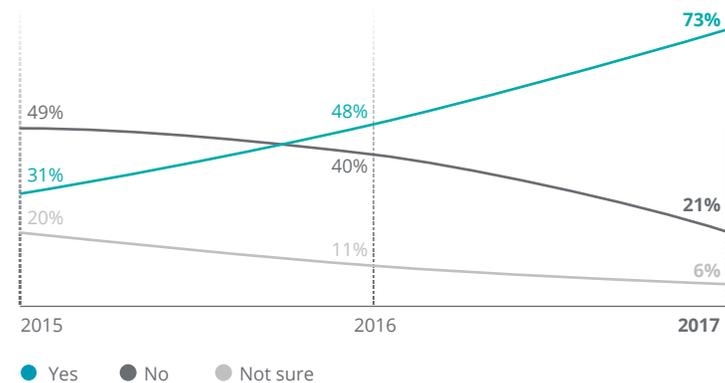
There's an even split among corporate respondents who say they will be seeking major, transformational deals and those seeking smaller strategic ones, with 27 percent of respondents picking one or the other. One in five respondents were on the fence, saying they'll respond reactively to any opportunities that arise.

Divestitures will be in vogue in 2017. Some 73 percent of both corporate and private equity respondents plan to sell units or assets in 2017, up from 48 percent reported in the mid-year 2016 report and only 31 percent in our 2015 M&A Trends report (when only corporate executives were surveyed on this question). Respondents are more certain of their plans; only six percent of all respondents say they are uncertain about plans to divest, down from 20 percent in 2015.

Respondents at corporations with more than \$1 billion in revenue intend to divest at a higher rate (79 percent) than those with less than \$1 billion (70 percent). Corporate respondents are most likely to divest primarily due to changes in their strategy (22 percent) and secondarily to reduce debt or raise capital (18 percent).

On the private equity side, more than half (55 percent) see strategic sales as the primary type of portfolio exit, with about 23 percent anticipating a sale to another private equity firm and 20 percent expecting to tap the public markets for an initial public offering to exit a position. Anticipated IPO exits have continued to decline since we first asked this question in 2015 (38 percent in 2015 and 32 percent in our 2016 mid-year survey).³

Do you expect your company to pursue divestitures over the next 12 months?



Industry convergence

Survey results indicate that respondents are virtually unanimous in anticipating industry convergence as a continuing trend in the coming two years, with only one percent disagreeing.

Not surprisingly, technology is seen as the top sector for convergence, with 26 percent of respondents declaring it their top pick.

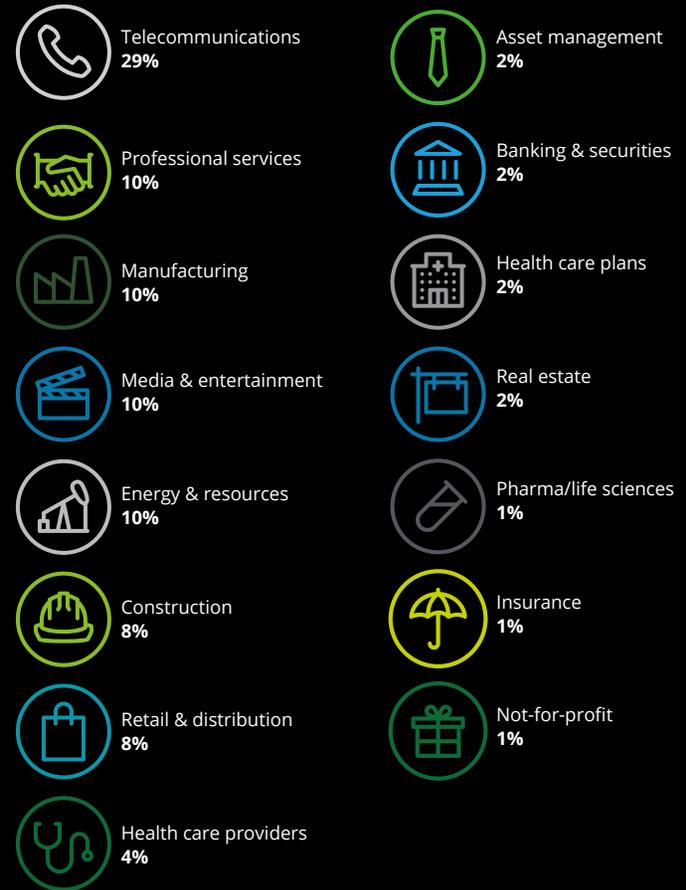
Why technology? As we'll see later in this report, acquiring technology assets has surged to a virtual tie (with expanding customer base in existing geographic markets) for the number two spot as the main strategic driver for M&A, more than tripling in importance since our mid-year 2016 survey. In this survey, 29 percent of respondents expect technology and telecom

providers to combine and 10 percent anticipate technology companies to converge with companies in professional services, energy and resources, media and entertainment, and manufacturing.

In addition to technology, respondents expect much of the convergence to happen in cross-related sectors. For example, roughly 84 percent of the deals in the life sciences and health care space will take place among life sciences, health care, and pharma companies.

Undoubtedly, digital disruption, changes in government regulation, and the continuous pursuit of growth will likely see this trend of industry convergence continue for the foreseeable future.

Which industries do you think will converge with technology in the next two years?



Headwinds

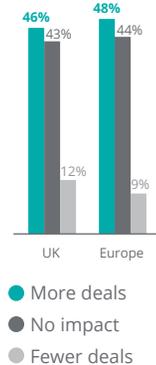
While survey respondents were clearly optimistic about the potential for a surge in M&A activity, they also pointed to several factors that could thwart deal flow in the months ahead, including global economic uncertainty and higher deal multiples.

Global economic uncertainty tops the list of potential deal obstacles over the next 12 months, though fewer respondents cite this concern than in our prior survey. In our [mid-year 2016 M&A Trends Report](#), 32 percent of corporate respondents cited global economic concerns as the number one obstacle to M&A activity, which has since decreased to 27 percent in the latest survey.

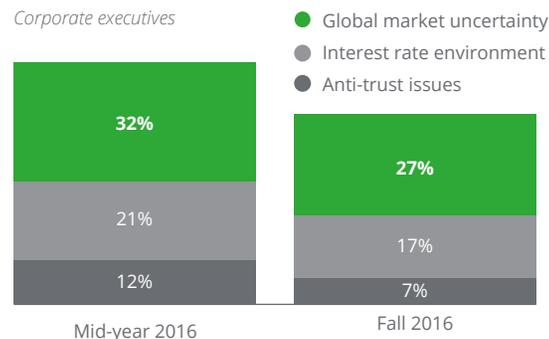
For example, though the verdict is still out on the impact of the United Kingdom's vote to leave the European Union, respondents say that Brexit will

actually drive transaction activity in both the United Kingdom (UK) and Europe rather than impede deal activity. Only 12 percent of all respondents anticipate fewer deals in the UK, and nine percent expect fewer deals in Europe in the coming year as a result of Brexit; 46 percent foresee Brexit spurring accelerated deal making in the UK, and 48 percent see it triggering more deal activity in Europe.⁴

How has Brexit (Britain's vote to exit from the EEC) impacted your M&A strategy?



What are the likely influences on your company's ability to pursue, finance, and close deals in the next 12 months.

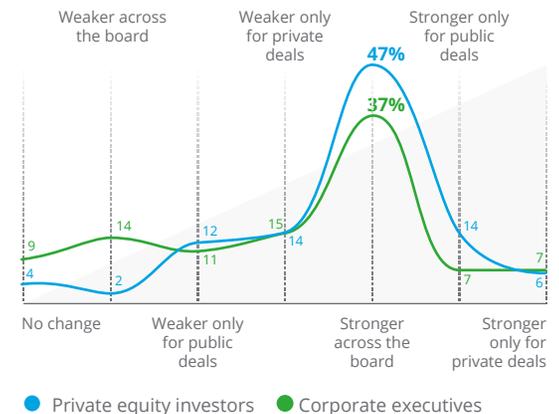


Other obstacles that could impede the flow of deals include volatility in the capital markets, which ranks second among corporate respondents (20 percent of corporate respondents), followed by deal valuations. Given historically high valuation multiples, it was surprising that 40 percent of respondents say that deal price multiples will be stronger both for private and public transactions—with significantly higher responses (47 percent) on the private equity side.

Interest rates are another potential obstacle to a company's ability to pursue and finance deals, though the level of concern fell from 21 percent of the respondents in the mid-year 2016 survey to 17 percent in this survey. Anti-trust issues were less of a concern (moving from 12 percent to eight percent in the recent survey), though respondents at private equity firms larger than \$1 billion cite anti-trust issues nearly four times more than respondents at firms below that threshold.

Interestingly, corporate CEOs and operating partners are more focused on anti-trust and interest rate concerns as potential obstacles to deals than other executives. These top executives are less concerned with valuation than executives in supporting finance roles. We will continue to watch this area as the new US presidential administration takes office.

How do you see deal price multiples changing over the next 12 months?



Impediments to success

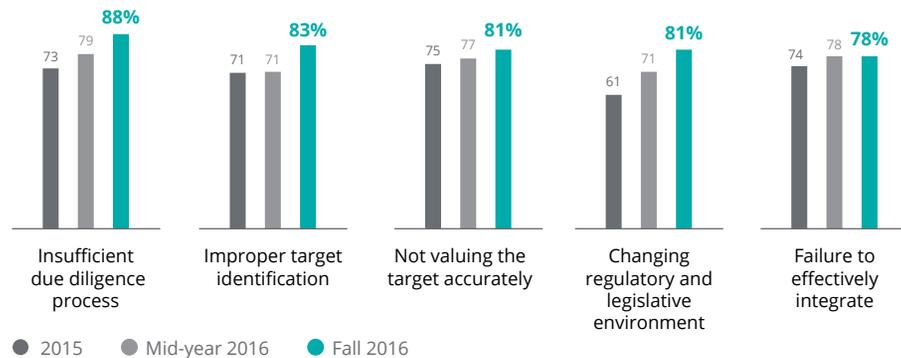
Most respondents (84 percent) say at least some of their 2015 and 2016 deals didn't generate the expected value or return on investment.

The technology, media and telecommunications sectors expresses the most disappointment over deal performance—about 91 percent of survey respondents say

deals did not yield the expected value or return on investment within the past two years. The manufacturing industry followed just behind at 86 percent. Overall, about 75 percent of corporate respondents say deals fell short of expectations.

Respondents note a host of factors to account for deals that didn't live up to expectations.

What is the biggest impediment to achieving a successful M&A transaction for your company?



About 20 percent point to the economy (manufacturing firms and energy companies feel the hardest economic pinch in relation to their transactions). After that, they cited (in order): expected sales not materializing, market or sector forces, and execution and integration gaps.

Effective integration remains the top-ranked factor by corporate respondents in achieving a successful M&A transaction, with about 23 percent ranking it as the most important driver. This category has consistently maintained one of the top two spots in the past three surveys. Accurately valuing a target and economic certainty tie for the number two spot. Due diligence remained an important factor.

Technology firm respondents feel more strongly than others about execution and integration gaps being the main reasons for underperformance in deals.

What is the most important factor in achieving a successful M&A transaction for your company?



Looking abroad

For US-based investors, 2017 is likely to be a year of globe-hopping. More respondents are looking for M&A deals abroad than in prior years, and they are focusing on a select cluster of countries and regions.

More than 90 percent of respondents say that at least some of their company's M&A deals will involve acquiring targets operating principally in foreign markets—up from 77 percent in our mid-year 2016 survey. Almost four in 10 say at least 40 percent of their targets will be domiciled abroad—up from about 31 percent recorded in our mid-year 2016 report.

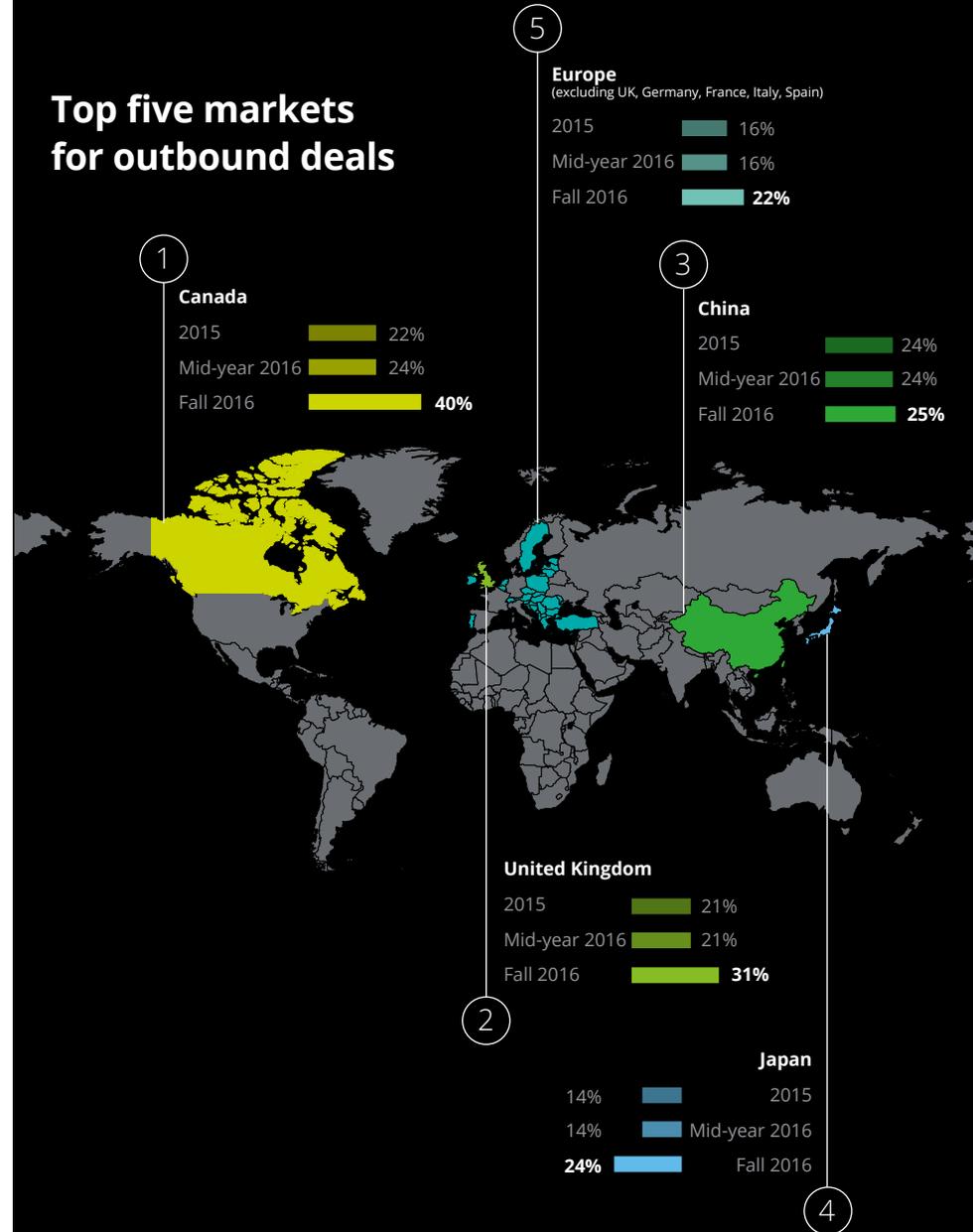
Canada ranks first among foreign markets poised for transactions, with 40 percent citing it as a target market. The UK ranks second, with 31 percent. China rounds out the top three, with one quarter of respondents hoping to pursue deals in the world's most

populous nation. Japan jumps to the number four slot with a survey reading of 24 percent, a single percentage point behind China.

It is worth noting that among private equity respondents, the UK was the most attractive foreign market with 40 percent of respondents choosing the region compared to 29 percent of corporate respondents.

Looking ahead, energy and resources companies have the strongest appetite for international deals. Among 24 international markets included in the response choices, energy and resources was ranked as the number one most likely sector for M&A growth in 17 of those markets; with 56 percent of firms looking to Canada for opportunities while 44 percent target Australia.

Top five markets for outbound deals



Strategic drivers

Overall, the top three strategic drivers for corporate mergers and acquisitions were fairly evenly distributed, although results showed an increased focus on acquiring technology assets, which was not apparent in the past two surveys.

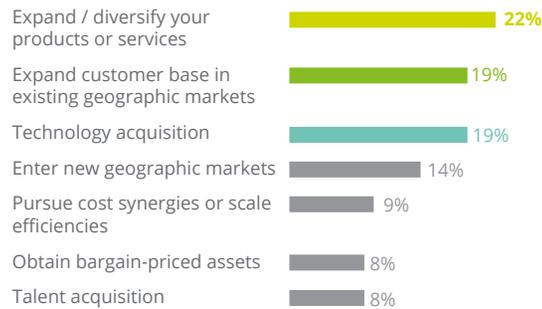
Expanding product offerings or diversifying services ranks as the top strategic driver with 22 percent of respondents citing it as the most important aspect of their M&A strategy, signifying a steady growth in importance over the past surveys.

The acquisition of technology surges in importance to tie for number two, with 19 percent citing it as the most critical driver. To put that in perspective, only six percent cited it as a driver in our mid-year 2016 report—a more than three-fold increase in importance in less than a year. Only seven percent cited technology acquisition as a driver back in 2015.

Expanding the customer base in existing geographies ties with technology acquisition for the number two slot with 19 percent. That number, however, has dropped steadily from 29 percent in 2015 and 23 percent in the mid-year 2016 survey.

Though talent acquisition ranks lower in strategic importance with only eight percent of respondents citing it as their top reason, results have doubled from four percent in the mid-year 2016 survey.

With respect to your company's M&A strategy over the next 12 months, what is the most important?



Cash is king

Over the past several years, corporate cash reserves have consistently increased; 65 percent of survey respondents (up from 58 percent in the mid-year 2016 survey) said their cash reserves have grown.

These responses are consistent with overall US reserves, where cash balances for the S&P 500 (excluding financial companies) stood at \$1.456 trillion at the end of the second quarter of 2016.⁵ That balance marked the second-largest cash hoard in at least 10 years, and the only time corporations (ex-financials) had more cash in recent times was the first quarter of this year.⁶

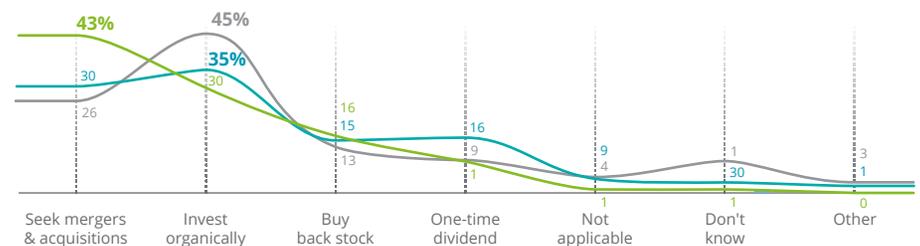
What do companies plan to do with all that cash? According

to the survey, corporations will primarily seek merger and acquisition opportunities (43 percent).

Forty-three percent of corporate respondents, up from 30 percent in the mid-year 2016 and 26 percent in 2015, say the leading use for their cash is new deals. In contrast, in the mid-year 2016 survey, 35 percent of respondents said they would use their cash to invest in their businesses.

Back in 2015, organic investments were far more popular than seeking M&A opportunities (45 percent to 30 percent). Now the opposite is true—corporations favor M&A deals over organic investments by almost 50 percent.

What is the primary intended use of your company's excess cash reserves?



Meet the team



Russell Thomson

Partner

Deloitte & Touche LLP
rthomson@deloitte.com



Trevear Thomas

Principal

Deloitte Consulting LLP
trethomas@deloitte.com



Mark Garay

Managing director

Deloitte Services LP
mgaray@deloitte.com

 Follow us on Twitter [@DeloitteMnA](https://twitter.com/DeloitteMnA)

Access the full report: www.deloitte.com/us/ma-trends-report

Subscribe to receive M&A thought leadership:
www.deloitte.com/us/masubscribe

About the survey

From September 12–20, 2016, OnResearch, a market research firm, conducted a survey on behalf of Deloitte and 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 2017 and better understand their experience with prior transactions.

All survey participants work in either private equity firms, or private or public companies with annual revenues of \$10 million or greater. The participants consist of senior executives (director-level or higher) involved in M&A activity. One-third of corporate respondents work in the C-Suite.

The corporate respondents represent 18 industries, with technology, professional services, construction, banking and securities, and industrial and consumer products accounting for roughly half the total in aggregate. Most of the corporate respondents (63 percent) work at private companies. Forty one percent of respondents work at organizations with less than \$500 million in revenue and 35 percent are at companies valued at \$1 billion and over. The remaining 25 percent are in the middle.

On the private equity side, there is also a wide distribution; 31 percent control funds larger than \$3 billion, while 30 percent are below \$500 million and the remaining 39 percent consist of medium sized funds between \$500 and \$3 billion in size. Half the private equity firms have 20 or more companies in their portfolio, and nearly three-in-ten had more than 40.

Endnotes

1. <http://www.usatoday.com/story/money/2016/03/24/sorry-wall-street-m-down-40/82174880/>
2. <http://www.wsj.com/articles/merger-deals-set-monthly-record-even-as-election-looms-1477614934>
3. This survey offered a new response option of “sale to another private equity firm.”
4. This survey was administered in September, prior to UK High Court ruling that Parliament must give its approval before the Brexit process can begin.
<http://www.nytimes.com/2016/11/04/world/europe/uk-brexit-vote-parliament.html>
5. http://www.factset.com/websitefiles/PDFs/cashinvestment/cashinvestment_9.26.16
6. <http://www.bloomberg.com/news/articles/2016-05-20/cash-stuffed-balance-sheets-can-t-match-even-bigger-debt-loads>



This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. In addition, this document contains the results of a survey conducted by Deloitte. The information obtained during the survey was taken “as is” and was not validated or confirmed by Deloitte.

Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

About Deloitte

As used in this document, “Deloitte” means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.