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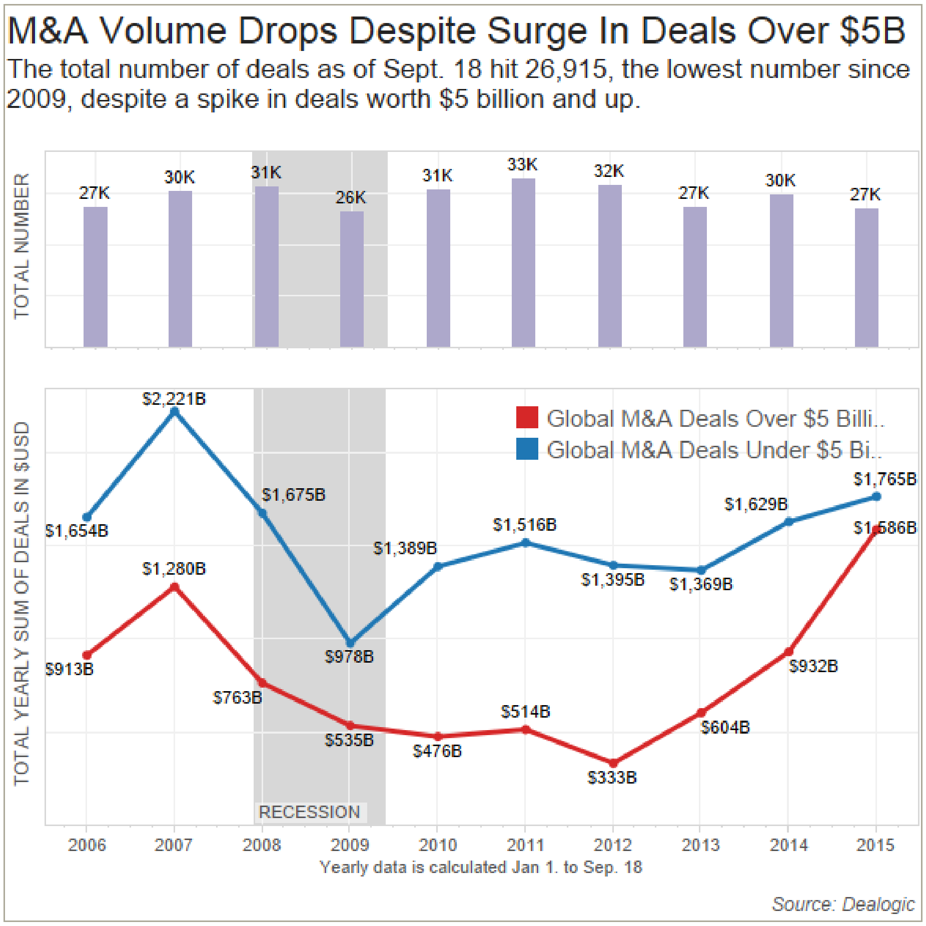
Year Of Megamergers Leaves Questions On M&A Health

By **Chelsea Naso**

Law360, New York (September 30, 2015, 4:11 PM ET) -- While deal value in 2015 so far is off the charts, the total number of deals has dropped, calling into question the mergers and acquisitions environment's overall health in a year peppered with megamergers.

The total value for deals announced as of Sept. 18 hit $3.35 trillion, a pace only matched in 2007, when the M&A market saw $3.5 trillion worth of deals during the same stretch, according to data tracked by Dealogic. The same span of 2014 recorded $2.56 trillion worth of deals.



While the value of deals has soared, their numbers have dwindled: There were 26,915 deals between January and Sept. 18, compared with 30,370 in the same period of 2007 and 29,640 in the same period of 2014, according to Dealogic.

The 2015 year-to-date total number of deals is more on par with the activity seen in 2009, when 26,377 deals were announced by mid-September, according to Dealogic.

The statistics appear to be at odds with many advisers' impressions of the market, which has seen multibillion-dollar deal after multibillion-dollar deal hit headlines, noted Jamie Leigh, an M&A partner at Cooley LLP whose practice tends to focus on the technology space.

"Deal practitioners anticipated that 2015 would be a blowout year for deal numbers because of economy trends and solid, historical cash positions for private and public companies," she said.

There are several factors that could be weighing on the overall quantity of deals, including a lag following the vibrant 2014 M&A market as many larger corporations take time to fully integrate their strategic acquisitions, Leigh explained.

"Many of the larger technology companies are still integrating deals from 2014," she said. "Companies are being more strategic and more thoughtful about long-term integration — rather than just simply buying a company, they are building the next-generation team."

The third quarter was also rocked by global economic concerns, including a market rout in China and growing unease about the country’s economy. The uncertainty in China, in turn, helped fuel volatility in the U.S. markets, which have been battered too by concerns over stumbling commodities prices and possible interest rate hikes by the Fed.

While these factors didn’t halt deal-making, they likely caused some acquirers to hit pause until everything stabilizes, according to Giovanni Caruso, a Loeb & Loeb LLPcorporate partner.

“The number of deals seems to have dropped off in the third quarter. I think at least part of that was the situation with the Chinese stock exchanges over the summer and the Chinese economy generally,” Caruso said. “In some ways, that may have slowed everything down.”

Although the overall number of deals has fallen, deals worth $5 billion or more have jumped to 103, outpacing each year since 2007, according to Dealogic. The same period in 2014 saw 73 such deals, while the same period in 2013 saw 44.

The uptick in multibillion-dollar deals is largely fueled by consolidation in several industries, including health care-related fields like insurance and life sciences, said Baker & McKenzie LLP partner Craig Roeder.

“In some consolidating industries there seems to be a musical chairs effect. Companies are forced to do deals, or they are going to be left out of the process,” Roeder said. “This may be the last opportunity to grow through acquisitions before the industry becomes so consolidated that you can’t do deals for antitrust reasons.”

Steve Arcano of Skadden Arps Slate Meagher & Flom LLP said that aside from certain industry-specific trends that have encouraged consolidation, many companies are also looking to grow through acquisitions.

"You’ve also got the continuing need for corporations to show growth," Arcano said. "With the economy recovering at a fairly slow pace so that organic growth tends to be limited, M&A activity has been one manner to help boost growth.”

The dip in the number of deals and the evolving motivation behind deal-making are likely signs of a healthy M&A market, explained Bob Profusek, a Jones Day partner and chair of the firm’s global M&A practice.

If anything, the numbers speak to the increase in strategic deals, which indicates that corporations are taking their time to make acquisitions or divestitures that advance their growth prospects rather than inking deals just to stay afloat, Profusek explained.

“The deal market is healthy, and this data doesn’t disprove that," he said. "I think what they really manifest is that it’s a much more strategic market and companies aren’t being forced to sell stuff.”

That is in stark contrast to 2010, 2011 and 2012, which technically saw more deals through mid-September than 2015, Profusek noted. Those deals were largely made out of necessity in the wake of the financial crisis.

“There were a lot of deals, but it didn’t mean the deal market was healthy," he said. "There were many distressed sales added to the M&A pipeline."

Overall deal activity for 2015, however, is still in flux with another full quarter around the corner.

“The reality of M&A is sometimes we can’t predict it,” Leigh said. “The story may not be totally done yet for 2015.”

--Editing by Jeremy Barker and Edrienne Su.
