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Competitive M&A Market

Jul. 25, 2013

The fundamentals for strong M&A activity remain in place despite a slowdown in [U.S. merger and acquisition \(M&A\)](#) activity in the first half of 2013, according to PwC US. Buyers remain extremely active in identifying, evaluating and competing to acquire assets in the market. Dealmakers are placing a premium on deal certainty, speed and agility to ensure successful deal outcomes that deliver long term value, according to PwC's U.S. mid-year M&A outlook, released today.

In the first half of 2013, there were a total of 4,587 total transactions, representing \$528 billion in disclosed deal value, according to data compiled by Thomson Reuters and analyzed by PwC. Accelerated deal flow in the final months of 2012, a constrained supply of assets for sale, and a lack of confidence in executing on transactions contributed to a drop in deal activity in the second quarter of 2013. As PwC expected in its [2012 year-end M&A outlook](#), the middle market continued to prop up activity, accounting for 28 percent of value through June 30, 2013.

“Challenges in the M&A market are being driven by a lack of well-positioned assets for sale, not poor deal fundamentals,” said [Martyn Curragh, PwC's U.S. Deals Leader](#). “A shortage of quality assets and a growing list of willing acquirers dictate a need for confidence and greater preparation to execute, from deal strategy through integration. Greater competition is driving valuations and deal timelines, leaving some would-be acquirers to reflect on missed opportunities, and others with buyers' remorse for failure to capture deal value.”

According to PwC's [16th annual CEO Survey](#), CEOs are bullish with at least 75 percent expecting growth over the next year through both organic means and acquisitions. Nearly half of U.S. CEOs said they plan to do a deal in 2013, indicating that

dealmaking remains top of mind for business leaders, however, less than one third of

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industries and regions, are looking for the right synergies to provide long term growth," added PwC's Curragh. "In this slow growth environment, buyers are taking on an ownership mindset earlier in the process, with a focus on agility, speed and flawless execution. Those who are unable to adjust their strategies and integrate quickly may be left second guessing their decisions."

Integration

As stakeholders place greater pressure and emphasis on companies to deliver deal value, companies are focusing on a more thoughtful and comprehensive [integration process](#) to quickly deliver on their investment rationale. According to PwC, early capture of deal synergies and value, increasing the knowledge around an asset, and flexible, rapid execution of the integration plan is critical to maximizing the return on an investment.

Divestitures

Divestitures remain a key driver of M&A activity, making up 31 percent of disclosed deal value in the first half of 2013. However, according to PwC, changes in buyer expectation, shareholder pressure and evolving industry and regulatory considerations are among the factors impacting the level of preparation needed on both the buy and sell side for deal certainty. Companies that develop robust [divestiture preparation processes](#) are better positioned to successfully exit their businesses in a shorter time frame, avoid sale price erosion, minimize distractions and derive the desired value from the sale.

Private Equity

Private equity deals accounted for 20 percent of total deal value in the first half of 2013, representing a total of \$103 billion in disclosed deal value. "Private equity firms are continuing to look at a range of opportunities to monetize their existing investments and are having success by preparing their portfolio companies to tap the

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Technology – While deal activity in the technology industry over the last several years has helped larger integrated companies build out platforms on new generation IT offerings – such as social, mobile, analytics, and cloud – there is a tremendous amount of opportunity to drive more acquisition of innovators to either establish or maintain leadership positions. As such, software transactions will likely continue to dominate volumes because of the importance of the shifts in cloud, mobile and needed security to businesses both inside and outside the technology industry. Private equity funds continue to play an active role and divestitures are expected to continue as hardware-centric technology players refocus on a software-centric future. The ongoing cloud/mobile convergence, coupled with record levels of cash, lend confidence that deal activity will likely rebound in the quarters to come.

Health Industries – Health industry consolidation has increased more than 50 percent since 2009 and is expected to continue through 2014. As the nation prepares for implementation of major provisions of the Affordable Care Act, innovative healthcare partnerships can lead to improved efficiency and provide high-value care to discerning customers. In the pharmaceuticals industry, companies continue to acquire innovative technologies and products via licensing to supplement the R&D pipeline and diversify portfolios with new markets and products. Pharma companies are looking beyond BRIC nations into ‘frontier markets’ to seek growth and innovation. As companies complete spin off activity, PwC expects to see an uptick in pharma deal volume based on available assets.

Financial Services – Financial services M&A will continue to face both uncertainty and opportunities in the second half of 2013 due to several factors including increased regulatory costs, depressed organic growth and the greater availability of attractive financing. However, M&A desire remains high among buyers, and there is increasing interest in quality financial services assets. Valuation gaps remain, and differences between buyer and seller perception of future profitability will likely

continue to present a challenge. At the same time, deal activity in 2013 is expected to

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the second half of 2013 given the recent pick up in businesses starting to come to market for sale and relatively positive trends in consumer sentiment and retail sales. For the balance of 2013, continued cross-border retail activity to access certain demographics in the global marketplace is anticipated.

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