

Mergers and Acquisitions

M&As Are Up Despite Persistent Worry Over Global Economy, Political Risks, Experts Note

Even with a lackluster economy, mergers and acquisitions are up so far this year, and the activity is expected to increase over the next year, although global economic and political risks threaten to dampen interest, according to market experts and recent industry surveys.

“Significant deal activity [is higher] this year compared to 2010 in the mid market space. Despite fears of another recession and expected slow global growth, companies and funds have started to spend for acquisition and take on some risk,” James H. Andros, a shareholder in the Atlanta office of the law firm Carlton Fields, told BNA Aug. 23.

Andros' observation is supported by those of other attorneys and by certain organizations that monitor companies across industries such as health care, insurance, technology, and manufacturing. They say the increase in M&A activity can be attributed to a range of factors, including interest in foreign markets, a focus by companies on core products, global economic pressures, and regulatory changes.

“Companies are putting their cash into play to ready themselves for future business,” Joseph Masterton, a shareholder in the M&A group of Baum & White LLC, New York, told BNA Aug. 23. “Far more interest in acquisitions this year. That is clearly the case. What is left to be seen is what the instability in world markets and geopolitical pressures have in store for us. That is a huge concern,” he said.

A Look at Numbers.

PricewaterhouseCooper LLC's quarterly analysis of global M&A activity in the transportation & logistics industry showed a jump in M&As of nearly 15 percent in the second quarter of 2011, compared to the same period of 2010, according to the firm's *Intersections* report released Aug. 18.

Berkery, Noyes & Co. LLC, an investment bank specializing in the information, content, and technology industries, reported increases in mergers across most of the areas it follows. According to its *Half Year Mergers and Acquisitions Trends Report for Private Equity in the Information Industry* issued Aug. 8, transaction volume and aggregate value rose considerably over the second half of 2010. Transaction volume increased 11 percent in the first half of 2011, rising to 171, while value rose a considerable 21 percent in the first half, hitting \$11 billion.

Berkery also reported gains for the online and mobile-device industries, in which total volume in the first half of this year rose by 23 percent over the last half of 2010.

“Not all industries are experiencing an increase in activity, but we are seeing significant improvement, which gives me some optimism for the economy in general,” Masterton said.

Nearly two-thirds of the 100 senior insurance executives interviewed for KPMG's *Insurance Industry Pulse Survey* report released Aug. 4 said they will be involved in a merger or acquisition as a buyer or seller in the next two years. In KPMG's survey of 100 senior banking executives, *Banking Industry Pulse Survey*, released June 22, 69 percent of the respondents said they expect their institutions to be involved in a merger or acquisition as a buyer or seller in the next two years.

Corporate Development 2011, a report released June 14 by Deloitte Development LLC, found similar results. Nearly two-thirds of 325 corporate development professionals in the United States and Canada said they expected an increase in the average number of deals their companies pursue annually during the next two to five years, the report said.

Pricing Pressures and Regulatory Changes.

The KPMG survey said that insurance executives are more interested in considering M&A strategies as a response to challenges posed by pricing pressures and regulatory reform. "What we will see are firms focusing on their core strengths, divesting of certain assets or markets that don't fit those strengths," Laura Hay, national leader of KPMG's insurance practice, told BNA Aug. 23. "With organic growth hard to come by, these executives have stockpiled available capital, and two-thirds of them tell us they are already putting it to work or plan to do so by the first quarter of 2012," she said.

Most insurance executives frequently cited pricing pressures (59 percent) and regulatory and legislative pressures (41 percent) as the most significant barriers to growth over the next year, Hay said.

As for banking executives, 78 percent of the respondents to the KPMG survey also identified regulatory and legislative pressures as the biggest barriers to growth, while 87 percent said regulatory changes are causing their banks to reexamine their business models in order to recoup lost revenue, according to the survey.

Andros, whose practice areas include corporate and international law, said a lot of factors are driving the activity. For example, companies have been "working on improving their financials and avoiding risk for a while," which means private equity firms "generally have funds not earning much." This has motivated some deals, he added.

By [Che Odom](#)

Berkery's report is available at <http://www.berkerynoyes.com/publication/trend-report/2011half/pe.aspx>.

Deloitte's report is available at http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/FAS_ForensicCenter_us_fas-us_dfc/us_fas_ma_CorporateDevelopment_2011_061411.pdf.

KPMG's report is available at
<http://www.kpmg.com/us/en/issuesandinsights/articlespublications/press-releases/pages/banking-execs-regulatory-reform-2011-survey.aspx>.

PricewaterhouseCooper's report may be downloaded at <http://www.pwc.com/us/en/industrial-products/transportation-logistics.jhtml>.

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