Waiting for the M&A Renaissance

KIRK FALCONER

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When will the highly anticipated revival in the merger and acquisition market take place? How much longer will venture capital and PE firms with aging portfolio assets have to wait before strategic investors are ready and willing to buy them?

These questions have been asked repeatedly since the 2007 financial crisis cast a pall over global M&A deal-making. Judging from the data, the wait for a substantial turnaround will be a little longer yet. Preliminary data released by **Thomson Reuters** (publisher of *peHUB Canada*) last week show that worldwide M&A activity in the first half of 2013 totaled US$979 billion, down 9% from the first half of last year. In fact, it was the slowest year-to-date period for international transactions since 2009.

The situation is, of course, much the same in Canada's M&A market. In the first three months of the year, **Crosbie & Co.** reports that deal-making fell back to 2009 levels. This followed mixed results for 2012 as a whole, when transactions were fewer compared to 2011, but attracted higher values – a total of $183.4 billion, up 15% year over year.

Colin Walker, managing director at Crosbie, in a news release cites "macro-economic uncertainty" as one of the chief "culprits" behind softer M&A conditions in early 2013. That was also the view taken by a panel of U.S. market analysts and practitioners at Thomson Reuters' **Buyouts Chicago** conference last week. Asked if North American M&A activity would show greater strength this year, senior professionals at **Imperial Capital, MHT Partners, Mesirow Financial** and **Schulte Roth & Zabel** unanimously answered in the negative, saying most strategic investors will remain at bay until cautious American corporations see surer signs of economic growth.

In other words, economic uncertainty trumps other factors that might lead to improved M&A activity. One of those factors is pent-up demand. Another is US$300 trillion in global financial holdings that is available for investment, according to a 2013 report by **Bain & Co.**: "The Renaissance in Mergers and Acquisitions: What to Do with All That Cash?" Current global holdings, says Bain, are six times larger than the market value of all publicly traded companies in the world.

By Bain's reckoning, the next global M&A boom will outstrip the last record-breaking boom in both deals and dollars. That's welcome news to venture capital and PE firms seeking to exit mature portfolio companies at reasonable prices. These firms tend to invest in companies for up to five or six years, and will often exit through sales to strategic buyers. For many assets acquired during the previous investment growth cycle, that hold period has already been reached or exceeded.

The issue of unrealized portfolio assets is one of the biggest challenges facing today's market. If GPs can't sell aging assets, they can't provide LPs with distributions. And that spells trouble for fundraising plans. A number of these points were also made by the Buyouts Chicago panel.

How important is this to venture capital and PE firms invested in Canada? Doubtless a large number of them are affected. However, it's interesting to note that exit activity has shown surprising momentum of late. Thomson Reuters' data show liquidity events involving domestic companies backed by buyout and other PE investors in the first quarter of 2013 are so far keeping pace with activity in 2012 – the best year for exits on record. And in the venture space, exits in this period already reflect half of total exits in 2012, indicating a potentially stellar year ahead.

Strategic investors are driving these Canadian trends. Strategic acquisitions accounted for well over 70% of all PE-backed exits in 2012 and the first quarter of 2013, and all but a handful of venture-backed exits. What might we expect when global corporations begin investing their mountains of cash in earnest, launching an M&A renaissance of major proportions?

Photo of jigsaw puzzle pieces courtesy of [Shutterstock]