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M&A Volume Drops, Mega Deals Abound

Value rises on the strength of record mega deals, but uncertainty weighs on flow

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Amid elevated economic and financial uncertainty, merger and acquisition (M&A) activity slowed in the second quarter — but the value of those deals rose amid inflated markets, according to new data from Crosbie & Co.

The volume of M&A deals declined by 12% in the quarter, the Toronto-based firm reported, and the value of transactions valued at under $1 billion came in at just $14.7 billion in the quarter, down from $18.3 billion in the previous quarter.

However, a record quarter for "mega" deals — transactions valued at more than $1 billion — pushed headline deal value up to $114.5 billion, despite the underlying weakness in deal flow. Across 23 mega deals in the quarter, the value of those transactions totalled $99.8 billion, Crosbie noted.

The weakness in deal flow came amid elevated uncertainty stemming from the ongoing U.S. war with Iran, which has boosted energy prices and sparked inflation fears, along with continued geopolitical and trade policy uncertainty.

"The M&A market became more selective, particularly at the smaller end, with greater scrutiny on earnings quality, cyclicality and other business-specific risks," the report said.

"At the same time, financing conditions remained supportive, allowing buyers with strategic conviction and balance-sheet capacity to continue pursuing large M&A transactions," it added.

The industrials and technology sectors were the most active for M&A in the second quarter, with 126 and 83 deals announced in the quarter — while the leading sectors by value included the energy, utilities and real estate sectors, which generated $32.1 billion, $20.5 billion and $16.3 billion in deal value, respectively.

"Macro uncertainty can make sellers hesitate to test the market, but we are definitely not seeing much impact on high-quality businesses," said Sadat Mirza, managing director at Crosbie, in the report.

"In situations with strong rationale, buyers are eager to build conviction and act decisively to get deals done. Ironically, this environment can work in favour of high-quality sellers — with fewer deals in the market, they are attracting more attention and stronger competition from buyers," he added.