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Alexandra S. Schmid
Grand Valley State University

Carol M. Sanchez
Grand Valley State University, sanchezc@gvsu.edu

Stephen R. Goldberg
Grand Valley State University, goldbers@gvsu.edu

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Grand Valley State University

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INTRODUCTION

Market conditions for mergers and acquisitions (M&As) remained positive in 2013. Relative economic growth in the U.S. and within specific industry sectors, and positive economic developments in the emerging markets signaled an optimistic outlook for M&A activity. There was a decline in worldwide M&A transactions in the first half of 2013 following a modest gain in 2012 which resulted in an overall slowdown in M&A activities, yet there are positive signs for future M&A growth. Corporate executives and their boards were selective with their investment choices and sought many of their M&A opportunities in the middle market. In this article, we report on global M&A activity in 2012 and the first half of 2013, and conclude with a discussion on the board of directors' role in mergers and acquisitions.

GLOBAL M&A ACTIVITY IN 2013 (Q1 AND Q2)

Despite a robust credit market, the lack of real economic stabilization and concern about seizing the true value of a target caused reluctance in M&A deals in 2013. Companies were hesitant to pursue large acquisitions presumably because they are particularly risky and complex. In the first half of 2013, global M&A activity decreased by 13 percent with a total reported deal value of $996.8 billion, and the number of deals decreased by nearly 14 percent with less than 17,000 deals (Thomson Reuters, 2013). The top three industries leading the 2013 global M&A

market were energy and power, real estate, and the financial sector. In comparison, global M&A activity in the first half of 2012 totaled $1.1 trillion, with about 19,400 announced deals.

Berkshire Hathaway & 3G Capital's $28 billion acquisition of H.J. Heinz, the global food company, was one of the mega-merger deals in 2013. Private equity firms, food production companies, and retailers seeking growth opportunities also sought M&A opportunities in the food sector. In 2012, the food and beverage industry entered the top ten industry ranking in global M&A deals by dollar value for the first time in three years, perhaps because consumers, especially in the U.S., have grown an increased appetite for organic foods and healthier food options. According to the U.S. Department of Agriculture, organic food sales have almost tripled within the past 8 years, from $11 billion in 2004 to $27 billion in 2012 (USDA, 2013), and the demand for organic food has outpaced organic production capabilities. In 2011, the USDA-certified organic growers sold more than $3.5 billion organic food products. Executives in the food and beverage industry report strong revenue growth that is propelled by increased consumer demand in healthier products, alternative sales channels, and social media product innovations (KPMG LLP, 2013a). Businesses plan to expand their operations by acquiring other food firms, and by increasing their production capabilities.

Other notable 2013 M&A mega deal announcements included Verizon Communications Inc.'s $130 billion deal to acquire Vodafone Group PLC's 45 percent stake in Verizon Wireless, Amgen's $10.4 billion acquisition of Onyx Pharmaceuticals, and Liberty Global Inc.'s $25.5 billion acquisition of Virgin Media Inc.

U.S. M&A activity in the first half of 2013 remained strong despite a decline in deal volume. Total M&A deal volume reached $431.3 billion, compared to $475.1 billion during the same period in 2012 (Thomson Reuters, 2013). The number of U.S. M&A deals slightly increased by 2.9 percent, with 5,076 announced deals. The healthcare industry led U.S. M&A activity with $71.8 billion in deal volume, a 16.7 percent share of total U.S. M&A activity. The energy and power sector came in close second place with $66.2 billion, a 15.3 percent share. Real estate and high technology followed closely, with $52.1, and $43 billion respectively (Thomson Reuters, 2013). For the rest of 2013, healthcare is expected to continue to lead the U.S. M&A market.

The U.S. middle market activity remained positive as deal volume and number of deals increased. Middle market deals accounted for $187 billion, with a total of 7,993 deals for the first half of 2013. This represents a modest 1 percent increase in deal volume and a 6.8 percent increase in number of deals compared to the same period last year (Deloitte, 2013).

The economies of Germany, Britain and France continued to gain traction in the EU. With rising consumer demand, and increased export opportunities, the top three EU countries have experienced an encouraging rate of economic recovery in 2013 (Thompson, 2013). Yet despite these positive trends, M&A activity in the first half of 2013 declined by nearly 40 percent, compared to the same period in 2012. M&A activity totaled $338.7 billion, with energy and power ranking first with $54.1 billion, and the financial sector ranking second with $42.7 billion (Thomson Reuters, 2013).

Brazil and India were the top two emerging countries for cross-border M&As in 2013. Multinational companies and private equity firms sought investment opportunities in foreign markets with positive economic growth, favorable government policies, and promising regulatory changes. For the first half of 2013, U.S. corporate buyers actively invested in over a 100 deals in emerging markets (KPMG, 2013b), which was a 5 percent increase from the previous year. Emerging market M&As totaled $287.9 billion (Thomson Reuters, 2013), or 29 percent of global M&A value. M&A activity in Asia Pacific (except Japan) decreased by 3 percent with a total deal volume of $195.2 billion. The economic outlook in Asia is mixed. The Asian Development Bank outlook report has trimmed Asia's economic growth projections by 0.3 percent, forecasting only a 6.3 percent growth rate in 2013 (ADB, 2013). China's economic activities at the end of 2013 show positive signs again as consumer spending and production outputs increase. The Chinese economy is expected to expand by over 7 percent in 2013 (Chen, 2013). In contrast, Central and Southeast Asia are struggling with financial instability and weak demand. Japan's M&A activity decreased by over 25 percent with a total of $59 billion in deal volume, and by over 13 percent in number of deals, going down to 1,302 deals in the first half of 2013.

GLOBAL M&A ACTIVITY IN 2012

Global M&A activity by dollar volume grew slightly from $1.91 trillion in 2011 to 1.93 trillion in 2012 (Robert W. Baird & Co., 2013). This less than 1 percent increase is due to better liquidity in global markets and attractive investment opportunities in emerging markets. In contrast, global deal count decreased by over 3 percent from 33,612 to 32,584 deals (see Exhibit 1). Central/South America led M&A activity by deal volume, growing by nearly 40 percent from

$78.9 billion to $109.4 billion, followed closely by Japan, which grew by over 27 percent from $132 to $168.5 billion. Debt ridden Europe experienced a decline in overall M&A activity, as acquirers seemed hesitant to pursue European targets. Europe's M&A activity by dollar volume declined by less than 1 percent from $627.1 billion to $624.4 billion, and activity by number of deals declined by over 11 percent from 12,404 to 10,967. The fewest number of M&A deals as a percentage change was reported in Asia-Pacific (ex Japan), where the deal count decreased by over 14 percent from 6,045 to 5,160 deals. Africa/Middle East, in contrast, experienced a nearly 19 percent increase in deal count, with over 1,000 deals.

US M&A ACTIVITY IN 2012

The U.S. economy experienced relative economic growth and higher levels of confidence in equity markets in 2012. The Dow Jones Industrial Average rose for the fourth straight year by the end of 2012, reaching 13,104, a 7.26 percent increase. U.S. M&A activity by deal number rose by over 9 percent from 11,865 to 12,958, yet deal volume declined by over 8 percent from $997.5 to $909 billion (Robert W. Baird & Co., 2013). Middle market deals once again drove U.S. transactions with an 8.2 percent increase in deal count by the end of the year. Most deal value was in the less than $100 million range. Exhibits 2 and 3 show the most active industries in 2012. The professional services industry dominated the U.S. M&A market by deal count, with over 1,800 deals. The healthcare and real estate/property industry sectors ranked 2nd and 3rd place with 1,249 and 1,036 deals respectively. Healthcare, oil and gas, and technology were the three most active sectors by dollar volume, with each of these sectors reaching a dollar volume between $113 and $122 billion.

M&A OUTLOOK

Cautious optimism describes the M&A outlook through 2013 and into early 2014. Macroeconomic factors in the U.S. remain positive, and a favorable credit market, strong corporate balance sheets, and pressure from shareholders for revenue growth should trigger positive M&A activity over the next few months (Chassany and Hammond, 2013). M&A analysts predict that the U.S. will continue to outperform other regions in M&A deals, reflecting the U.S.'s skill at doing local deals and seeking synergies for revenue growth. European acquirers, on the other hand, are expected to continue their buying spree internationally. With the UK, Germany, and France leading the EU recovery, European cross-border M&As are expected to grow. Likewise, Asia-Pacific will continue to buy attractive targets in Europe and in North America. The technology, energy, and healthcare industry sectors should lead M&A activities, as companies in these sectors try to identify prime targets for strategic, long-term growth.

BOARD OF DIRECTORS' ROLE IN MERGERS & ACQUISITIONS

Mergers & acquisitions are an integral part of corporate strategy. Acquisitions are usually complex, and if integration is a goal, they require special oversight by both the executive management team and the board of directors. In recent years, corporate leaders, shareholders and special interest groups have discussed the role of the board in mergers and acquisitions. According to the National Association of Corporate Directors (NACD), the board of directors is in a unique position to provide strategic oversight and to help mitigate corporate risks for corporate transactions, such as mergers and acquisitions. The NACD has argued that the role of risk oversight should not be placed solely on the audit committee, whose role is already heavily burdened with ensuring the accuracy of financial reporting, but should involve the entire board of directors to assure a wide-ranging strategic risk management approach to the transaction (NACD, 2009).

But a recent survey by McKinsey & Company (2013) reveals that there seems to be a persistent lack of involvement by the board of directors in corporate risk management. Survey results indicate that most of the boards' time is spent on strategy, that the boards are spending less time than before on M&As, and that nearly 30 percent of the board members have limited or no understanding of the risks their companies face (McKinsey & Company, 2013). Knowing that high-profile M&As have the potential to shape the future and the strategic direction of a company, it is surprising to find that boards are not engaging in risk management of M&As. In the next few sections, we discuss the characteristics of boards that are associated with better M&A outcomes, and the board's role in the pre-M&A, deal closing, and post M&A phases of acquisitions.

BOARD COMPOSITION & STRUCTURE FOR M&A RISK MANAGEMENT

The board's responsibility is to act in the best interest of shareholders. This means providing financial oversight and engaging in the development and vision of long-term strategic goals. As a result of major corporate scandals in the early 2000s and the global financial crisis in 2007, the NACD recognized the need to revisit its core principles of corporate governance and thus challenged boards across America to move beyond the traditional corporate governance model and to adapt their duties towards a more risk-based approach to oversight. The NACD identified four top areas of corporate governance: risk oversight, strategy, executive compensation, and transparency (NACD, 2009). In its 2009 report, the NACD found that risk oversight should be a key board responsibility, yet only 25 percent of boards assume a strategic risk management approach that engages the entire board.

The board's composition and structure may be related to its lack of risk oversight. Board composition and structure affect a board's level of involvement in a company's activities (Daily, Dalton, and Cannella, 2003; McDonald, Westphal, and Graebner, 2008). The proportion of independent or outside board members on the board positively affects firm performance (Singhchawla, Evans, and Evans, 2011). What is more, involving outside board members with target industry experience (Kroll, Waters, and Wright, 2008) and those who have been involved in acquisitions in the past (McDonald, Westphal, and Graebner, 2008) is associated with acquisition success. Therefore, it seems that involving independent board members with prior acquisition experience and industry knowledge in the acquisition process might lead to more positive acquisition performance, suggesting that how a company structures and uses its board helps a company manage its M&A risk (see Exhibit 4).

THE BOARD'S ROLE DURING THE PRE-ACQUISITION PHASE

Successful M&As rely on extensive due diligence. Once a target company has been identified and an acquisition for integration is a strong consideration, the executive management team should spend a considerable amount of time examining the strategic fit of a potential target, such as its financial structure, its risk and corporate governance profile, its organizational culture, and its tangible and intangible resources (Exhibit 5). The board's role is to critically evaluate these due diligence findings and to identify additional risks that may have not been addressed in the pre-acquisition due diligence report. For example, the board should ask whether the executive management team holds any potential bias for choosing the target (Lovallo, Viguerie, Uhlaner and Horn, 2007). The board should ask whether the target's resources and company culture will align with the acquirer's strategic goals, and evaluate whether the potential acquisition will come at a premium price, and if so, is the price justified (Zhu, 2013). The board might ask the executive team to consult with other experts to further examine the legal, financial, and strategic aspects of the potential acquisition. For example, if the target company is acquired to diversify the corporate portfolio, what risks are there to the company's core business? If the acquisition is in a different market or industry, what are those specific risk factors? Are there new compliance, demographic, environmental, economic, or competitive risks that this acquisition might bring?

The board of directors should ask the executive management team for a strategic plan for implementing the acquisition. The plan should have clear performance measures and specific time targets that include steps to integrate the target organization, if that is a goal. The plan should identify the acquisition leadership team, the acquisition costs, the governance mechanisms, and how they will communicate the process to managers, employees, customers, and suppliers.

The board and the management team might consider tying some performance measures used for executive compensation to the success of the acquisition. Unremarkable results of past acquisitions are legendary in business transactions, and if executive compensation incentives are tied to results, the potential for missteps may be reduced.

THE BOARD'S ROLE DURING THE DEAL-CLOSING PHASE

Tensions may rise once the acquisition deal is near closing. The stakes are high and pressure to close the deal may cause friction between the acquirer and the target company, and within the acquirer's organization. The board's role during this time of tension is to support the executive management team (see Exhibit 6), and to be ready consultants to them as negotiations take place. Because of the board's oversight role, members may be able to monitor the negotiation process and help to keep the deal's strategic and financial goals on target. For example, board members may be able to suggest alternative deal structuring opportunities, or strategies for dealing with issues of intellectual property.

The executive management team should keep the board apprised of its progress on its strategic acquisition plan, and determine who will lead the deal from closing to full implementation. The composition of the acquisition leadership team is critical to the acquisition's success, and the board should understand how each member would contribute to the acquisition's goals. They may be useful in evaluating potential leadership transitions and key people of the target company. How will the target company's management team contribute to the integration? What are the value drivers of this team? Who are the key people in the target organization whose know-how will be indispensible to the acquisition and whose contributions will ensure the success of meeting long-term strategic goals of the acquisition?

Outside experts, beyond the common legal and accounting teams, can further add value to the high pressure deal closing phase. If a board decides to hire additional M&A experts, such as consultants with expertise in M&A transition/execution, it is good practice to hold these experts accountable for their direct contributions by setting specific measurable targets throughout this phase and to evaluate their overall effectiveness at the end of the transaction.

THE BOARD'S ROLE POST-ACQUISITION

The board of directors should also monitor progress of the new acquisition (Exhibit 7). Implementation and integration, if that is a goal, are the most critical components of an acquisition's success (Connor, 2001). The board can keep the executive management and the acquisition leadership team on target by asking questions about how physical and financial assets are being used, and about expected and unexpected challenges. For example, if the acquisition plan is not meeting its objectives, the board might intervene by suggesting remedial actions to return the acquisition to its intended path.

The NACD recommends that boards do more to increase the transparency of decisions made during implementation of an acquisition (NACD, 2009). Communication about the progress of the acquisition after the transaction is completed is important, and requires careful consideration. The board and the executive management team should work together to decide on the best communication strategy towards external and internal stakeholders. For example, employees may be concerned that resources are being used differently because of the acquisition, and they should be informed why this may be so. The board should verify that good internal reporting processes are in place throughout the implementation phase and hold the head of the acquisition team accountable for the acquisition communication strategy.

CONCLUSION

This article reviewed the state of M&A activity in 2012 and the first half of 2013. While global M&A activity was modest, the outlook for the second half of 2013 and beginning of 2014 looks promising as key fundamentals for deal making remain positive. We also discussed the role of a company's board of directors in M&A transactions, noting that a company's board of directors can provide important support to the executive management team during the M&A process. The board's role is to be an advocate, and often a devil's advocate, for shareholders' interests by helping executives ask the appropriate questions, create appropriate goals, and establish achievable measures of success.

Exhibit 1

Global M&A Activity in 2012 and 2011

Exhibit 2
U.S. Most Active Industries in 2012 (by Number of Deals)

1. Professional Services
2. Healthcare
3. Real Estate/Property
4. Finance
5. Oil and gas
6. Construction/Building
7. Telecommunications
8. Machinery
9. Consumer Products
10. Retail

Source: Robert W. Baird & Co. Incorporated (2013, January).

	M&A Value of Deals (in Billions, US Dollar)			M&A Number of Deals		
Region	**2012**	**2011**	***% Change***	**2012**	**2011**	***% Change***
North America	$1,048.8	$1,085.5	*-3.4%*	14,606	13,751	*6.2%*
U.S.	$909.8	$997.5	*-8.8%*	12,958	11,865	*9.2%*
Central/South America	$109.4	$78.9	*38.6%*	1,314	1,283	*2.4%*
Japan	$168.5	$132.0	*27.6%*	2,461	2,374	*3.7%*
Asia Pacific (ex Japan)	$330.5	$262.5	*25.9%*	5,160	6,045	*-14.6%*
Europe	$624.4	$627.1	*-0.4%*	10,967	12,404	*-11.6%*
Africa/Middle East	$47.1	$56.4	*-16.6%*	1,029	868	*18.5%*
Global Total	$1.930.0	$1,918.4	*0.6%*	32,584	33,612	*-3.1%*

Source: Robert W. Baird & Co. Incorporated (2013, January).

Exhibit 3
U.S. Most Active Industries in 2012 (by Dollar Value)

1. Healthcare
2. Oil and gas
3. Technology
4. Real Estate/Property
5. Telecommunications
6. Finance
7. Food and beverage
8. Utility and energy
9. Professional Services
10. Chemicals

Source: Robert W. Baird & Co. Incorporated (2013, January).

Exhibit 4

Board Characteristics Positively Associated with M&A Success

- Proportion of independent board members
- Outside board members with target company industry experience
- Outside board members with acquisition experience

Exhibit 5

Board's Role in M&A Pre-Merger Phase

- Perform extensive due diligence
- Examine risk profile of the target company
- Examine potential bias and strategic fit
- Evaluate strategic implementation plan
- Tie executive compensation to successful implementation of new acquisition

Exhibit 6

Board's Role in M&A Deal-Closing Phase

- Review and advise management team about the strategic implementation plan
- Verify performance of outside consultants hired to help close the deal
- Advise management team on the composition of the acquisition leadership team
- Help management team keep negotiations on target

Exhibit 7

Board's Role in M&A Post-Deal Phase

- Monitor risk and value drivers to assure that key human and physical capital of the target company are part of the new organization
- Advise leadership team on its communication strategy to internal and external stakeholders

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