

Mergers and Acquisitions : what else ?

In a world where economic growth is likely to remain modest for a long time, and inflation is due to stay low, companies have to find other ways to generate growth, such as mergers and acquisitions. Estelle Ménard, Deputy Head of Global Thematic Equities, and Portfolio Manager of the Restructuring strategy, CPR Asset Management, gives us the key points of this market in 2015 and the outlook for 2016. She also tells us what else is there.

Was 2015 a good year for the M&A market?

2015 was a particularly good edition for mergers and acquisitions: if we look at the figures, global M&A volume has increased for the third consecutive year to record \$5.03 trillion in 2015, surpassing the \$5 trillion mark⁽¹⁾ for the first time ever. If we focus on Europe, targeted M&A volume has reached \$1.03 trillion in 2015, its highest level since 2008.

This past year has also been a time for thinking big. Yet, a total of 69 M&A transactions of \$10bn and more have been announced globally, for a total of \$1.90 trillion in 2015, its highest volume on record. In November, US pharma Pfizer announ-

ced the acquisition of Allergan for \$160 billion: it is the second largest M&A deal on record behind Vodafone AirTouch's \$172 billion of Mannesman in November 1999. In terms of industries, the top three is composed by healthcare (the most targeted industry for global M&A up 66% in 2014), technology and real estate.

2015 was indeed a good year, but there is still some room for progress: regarding Europe, targeted M&A volume is at its highest level since 2008, but hasn't reached its 2007 level yet. More generally, the M&A cycle isn't at its highest in the global market capitalization. It represented 11% in 2000, 10% in 2007 and 9% in 2015. Merrill Lynch forecasts are promising, since they anticipate M&A to grow by 15 to 20

Do you believe M&A will remain on this positive trend in 2016?

Yes, because the environment is especially "M&A friendly": in the current low growth environment, companies buy top line growth through external acquisitions. This trend is being underpinned by exceptionally easy financing conditions, where interest rates are going to stay low and companies have reduced their debt. They thus have the potential to releverage their balance sheets. Moreover, in a low inflation world, sector consolidation through M&A enable companies to increase their pricing power and maintain their margins.

Also, the weakness of the euro makes European companies more attractive for US ones, which use their trapped cash by doing some cross border deals. Finally, companies make more and more strategic deals to acquire innovation, in the pharmaceutical sector among others. For all these reasons, I'm optimistic that 2016 will be another good year for M&A!

Aside from M&A, do companies have other "restructuring ways" to create growth?

Actually, they do. In our investment approach, there are two ways to generate growth, one is the financial restructuring (M&A, assets swings) the other one is economic restructuring (cost cutting program, change in management, assets disposal). I already evoked the advantages of financial restructuring, so I will focus on economic restructuring: in this segment, costs reduction should lead to earnings and margins' improvement and companies should benefit from their operational leverage in an improving economic environment.

Having this two folded approach enables us to generate growth in different states of the economic cycle. So, mergers and acquisitions, what else? I'd say economic restructuring!

1) Source for the volumes related figures : Dealogic. Data as of 12/29/2015