Media Release

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2016 Global M&A Activity Back to Normal After 2015 Record Highs: KPMG International's M&A Predictor

- 2016 cools down from the blowout performance of 2015
- Stellar year for cross-border deals, highest average deal value since 2007
- Recovery in full swing for energy sector with highest deal value in a decade
- Technology sector well placed to disrupt in 2017

Singapore — 14 March 2017 — The volume and value of M&A transactions for 2016 are down from the record levels achieved in 2015; however, cross-border activity remains resilient, according to a new report from KPMG International.

Near-zero interest rates and companies using M&A to fuel growth and combat slowing momentum in the global arena continued as key themes in 2016. Economic and political uncertainty drove anemic volume in the first-half of the year; however, looming rate hikes and uncertainty around 2017 policy shifts helped to make Q3 and Q4 record quarters for mega-deals. Despite high volume levels in Q4, overall deal value was lower than 2015's stellar numbers.

Cross-sector deals dominate by volume

"Cross-sector M&A opportunities continue to be a major focus for corporates," said Leif Zierz, Global Head of Deal Advisory, KPMG International. "The falling value of announced deals should not lull us into complacency. Companies are looking to other sectors to grow capabilities, competencies or gain a competitive advantage."

Cross-sector deals have climbed steadily as a proportion of all deals, rising from the low 30s in the mid-2000s to 43 percent in 2015 and 2016. The value of these M&A activities also rose from 16 to 24 percent over the last 10 years, as a proportion of all deals.

Cross-border shines in 2016

The US$1.39T value of cross-border deals in 2016 was a slight decline over 2015 (down 3 percent). This compares favorably with the overall market which declined 17 percent in 2016. Out of the top 100 deals in 2016, 41 were cross-border deals. The average size of cross-border deals increased by approximately US$1M, while the average size of all deals decreased almost 12 percent.

"The number of cross-sector deals is growing, but the value of these deals continues to remain modest," said Philip Isom, Global Head of M&A, KPMG International. "We are seeing much stronger activity on a global basis, where cross-border deal sizes are increasing and cross-border deals comprise a larger percentage of overall deals completed. We expect this trend to continue."

Two areas of strength: technology and energy

The energy sector is in full recovery mode with the highest announced deal value since 2008 to US$753.4B. The average size of deals increased from 2015, with all top 10 energy deals valued over US$12B. This is predicted to further improve in 2017 with a 9 percent rise in predicted appetite and a 23 percent increase in predicted capacity.

Technology's war chest continues to grow as net debt decreases by 147 percent and EBITDA increases by 12 percent. As a result, the appetite for deals in this sector is predicted to increase by an astonishing 121 percent in 2017. And while predicted appetite is expected to be flat in 2017, it signals that the technology firms are well-placed to continue disrupting other sectors through the acquisition of capabilities and businesses.

Mixed signals for 2017

An exceptional 2017 is certainly within sight given healthy increases in predicted capacity. Activity is expected to be mixed as predicted appetite declines marginally during 2017. Flat market capitalizations, announced tax changes, modest net-profit growth and ever-present geopolitical risk all have the potential to hamper corporate confidence.

Commenting on the local market, Head of M&A at KPMG in Singapore, Benjamin Ong, said: "2016 saw cross-border M&A activity remaining resilient after a slow first half in the face of economic and political uncertainty. We expect continued strong M&A activity in 2017, although geopolitical and economic risks have the potential to hamper corporate confidence."

"Singapore corporations have a strong capacity to transact on the back of prudent balance sheet management and increasing cash reserves, allowing them to pursue and seize good opportunities. At the same time Singapore remains an attractive platform for foreign investors looking to expand into Southeast Asia given Singapore's reputation for transparency, efficiency , stringent regulatory requirements and strong protection of intellectual property," Mr Ong added.

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About M&A Predictor

M&A Predictor is an annual publication by KPMG International combining worldwide mergers and acquisitions results from the last 12 months with the appetite and capacity for M&A deals for the upcoming 12 months. The M&A Predictor data is sourced from Capital IQ, Dealogic and KPMG analysis.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. The KPMG network operates in 152 countries and has 189,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of our clients.

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