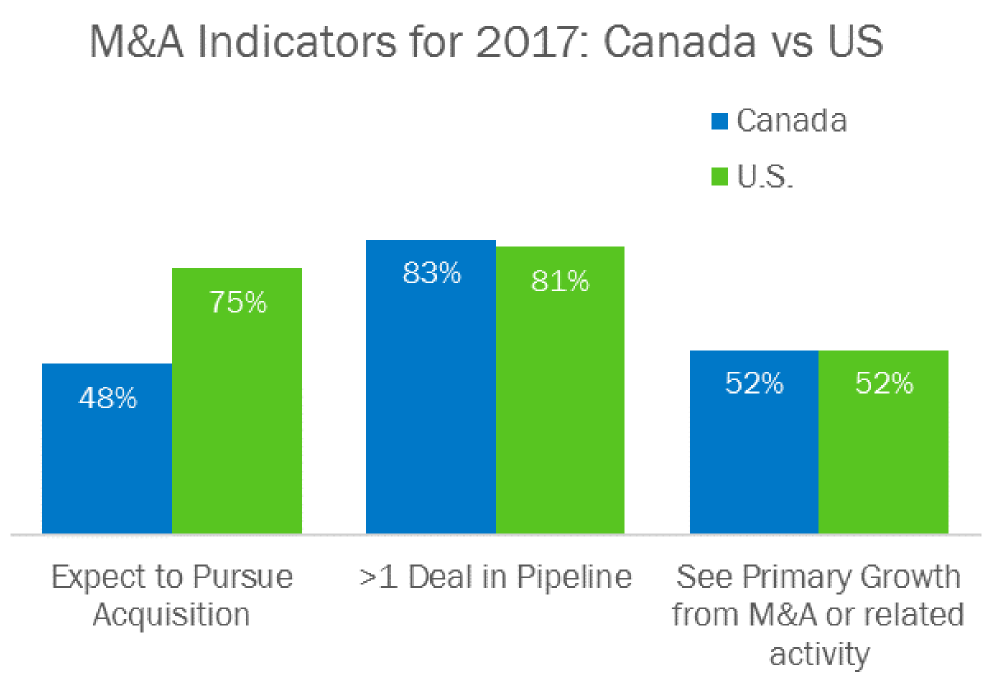
Insight Article: M&A in 2017 – A Glimpse at What Lies Ahead…

As the end of the year draws near, we are setting our sights on 2017 and expectations for M&A.

Consistent with the MACI leading indicators referenced above, EY's recently released Global Capital Confidence Barometer gives us cause for optimism, at least through Q1, 2017.[1] The article reports the survey results of more than 1,700 executives in 45 countries including Canada, which is where we will focus.

The report presents an auspicious outlook for 2017, with 44% of Canadian respondents expressing a belief that the Canadian M&A market will improve over the next twelve months (versus only 14% last year). In addition, 48% expect to actively pursue a merger or acquisition in the next 12 months. While this is below global (57%) and U.S. (75%) levels, Canadian expectations do exceed the historical average. Moreover, and more tangible than expectation, Canadian respondents have deep deal pipelines, with more than 80% currently looking at multiple acquisitions. Finally, adding an extra layer of momentum to the Canadian M&A market, and for the first time since 2013, Canada ranks as one of the top five countries where global respondents will actively pursue acquisitions.



The favourable outlook expressed in the EY report and the positive MACI leading indicators are consistent with Intralinks' recent forecast of M&A activity through Q1 2017. Intralinks tracks early stage virtual data room activity in preparation for M&A due diligence to assess future transaction volume. Global early-stage M&A activity in Q3 2016 increased 7% year over year (YOY), representing the highest growth rate in 2016 to date, with Canada registering YOY growth of 10%.

Positive management expectations, higher levels of M&A due diligence and our own experience at Valitas lead us to feel optimistic about 2017. In the latter part of the year, we signed several mandates that will be announced in Q1 2017 and are working with a number of companies to assess their strategic alternatives in light of current market conditions.

Current market conditions provide compelling support for a strong start to 2017. There is plenty of cash on corporate balance sheets and in private equity coffers, and credit terms remain favourable. In our current slow organic growth environment, companies are relying on acquisitions to drive revenue growth. Additionally, management will continue to use targeted acquisitions to "future proof"[2] their companies in response to challenges posed by new innovations and disruptors. The limitation to future activity remains in the shrinking pool of quality targets and inflated valuation. Worthy of note, however, is that 75% of Canadian respondents to the EY survey were bullish on the quality of acquisition opportunities. We'll hang our hat on that (at least for now). It's nice to end the year with on strong start to 2017 on the horizon.