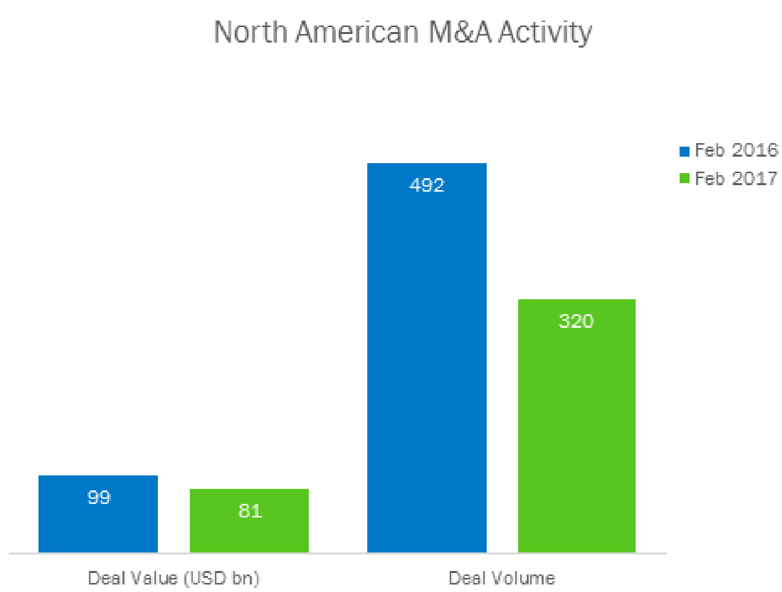
Valitas Insight: The February Plummet

There was a sharp reversal in global M&A activity in February. After a busy start to the year, it appears that corporate and private equity (PE) buyers have decided to hit the brakes.

According to a recent Mergermarkets report, in February 2017, total global deal value plummeted 43.4%, to US$135.3 billion year over year, and transaction volume decreased 41%, from 1,434 to 843. Global PE buyout activity contributed to this slowdown. In the first two months of 2017, there were 329 buyouts with a total value of US$40.7 billion, less than half of the 677 Q1, 2016 deals worth US$72 billion.

North American deal activity also slowed, though in aggregate, not as dramatically. Deal value declined 18.7% to US$80.5 billion over 320 deals, down 39% from 492 deals in February 2016. North American PE activity was a particularly weak spot, with buyout total value of US$14.4 billion over 129 deals in the first two months of 2017, compared to US$33.9 billion over 260 deals in Q1, 2016.



The sector star in February was the Energy, Mining, and Utilities sector, which led deal activity in North America with 28 acquisitions worth US$24.1 billion, although both deal value and volume were down from February 2016. Watch for more on the energy sector, and specifically, Canadian Oil & Gas, in next week's Valitas article, where (spoiler alert) we will share our optimistic insights on sector activity through 2017.

Getting back to the broader deal activity, what's going on here? We've been writing over the past months about the mounting availability of capital, but as we've noted, it's becoming increasingly difficult to source quality targets, and because of all that available capital, buyers face stiff competition. Place that scenario into the current global environment fraught with political uncertainty – think Brexit, elections in France and Germany, and Trump administration policies – and it's no surprise that buyers are stopping to take a breath.

That said, we are optimistic for Canadian deal activity in 2017. Year to date, Canadian deal activity is up 19% over the same period in 2016 and the momentum continues. We should also see more activity in the oil & gas sector (to be discussed further next week). In addition, in spite of uncertainties related to pending White House policies, there is an optimism related to their potential outcomes reflected in a recent survey of U.S. middle market executives. According to survey results, a substantial majority of respondents report strong positive expectations relating to economic and company growth.

In these uncertain times, we appreciate these words of wisdom from Zig Ziglar (we don't actually know who he is, but do think the quote is fitting):

"Expect the best. Prepare for the worst. Capitalize on what comes."