Global M&A: Fewer deals, better quality

In 2013, acquirers continued to improve their discipline in creating value.

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The amount of value created by M&A in 2013 continued to hover well above the long-term average, even as the volume of deals declined. According to McKinsey analysis of the market's reaction to mergers and acquisitions,[1] the net value, measured as deal value added (DVA), dropped to 12 percent, from 12.9 percent in 2012, though it remained considerably higher than the 15-year average (Exhibit 1).

Exhibit 1

Acquirers continued to capture more deal value—even as total deal value hovered near long-term highs.

- Enlarge

Acquirers also continued to improve their discipline at capturing this value for their shareholders. The proportion of deals followed by a decline in the acquirer's share price—that is, the percentage of overpayers (POP)—fell to a new low of 45 percent, significantly better than the historic average of 58 percent (Exhibit 2). In fact, since 2010, more than half of all deals have left the acquiring and acquired companies worth more together than they were apart. Even acquirers, who were long seen to be ceding most of the value created by a merger to acquired-company shareholders, are at least no longer destroying value. Their aggregate average return was just slightly positive over the past four years.

Exhibit 2

The number of overpayers continues to decline.

- Enlarge

Although M&A seems to be creating more value, companies are doing less of it. M&A volume may have more than doubled over the past decade in absolute terms, but relative to global equity-market capitalization, the level in 2013 was about the same as at the bottom of the last M&A cycle, in 2002 and 2003. It was also substantially lower than the peak of M&A activity in 2007, dropping from 9.1 percent of global equity-market capitalization that year to 7.4 percent in 2013. The portion attributed to corporate acquirers over that time period also fell, from 7.4 percent to 5.4 percent—the lowest levels since the late 1990s, save for the single exception of 2002.

Why does M&A appear to be creating more value? There are several possible explanations. Companies are clearly being more selective, holding potential deals to a higher bar. And it's possible that increasingly professionalized corporate M&A and business-development groups have improved performance. M&A does appear to be creating more value now than it did at this point in the last downturn, which suggests that current performance is more than a cyclical phenomenon. But it could also be that investors are simply rewarding companies for reducing the cash on their balance sheets—or that share prices are buoyed by the cheap money resulting from quantitative easing. Only a rebound in M&A volumes and further reduction in quantitative easing will tell.

About the author

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