May 2015

2015 – The Year of the Mega M&A Deal

The first half of 2015 has given rise to a significant change in sentiment in corporate activity globally. The flurry of sizable transactions announced so far this year is clear evidence that M&A is at the top of boardroom agendas. According to Bloomberg data, global M&A transactions stood at approximately USD1.04tr for the first three months of the year. This is an increase of more than 20% on the same period in 2014 and represents one of the strongest starts to the year since 2008. So what has changed? There have been in excess of fifty USD5bn+ deal announcements so far this year. This is the highest number in any year observed for some time. As we look to the second half of 2015, little is changing, momentum of the mega deal is progressing and we are seeing newly announced mega transactions on a weekly basis.

Annualising the YTD2015 data indicates that this year could be one of the most active in terms of transaction values since before the financial crisis. Stifled and in the shadow of significant macro uncertainties, geopolitical instability, poor earnings visibility and general market volatility, the last seven years have weighed heavily on boardroom confidence. A lack of conviction led key decision-makers to postpone their expansion plans and enter a “wait and see” mode. Today that situation has changed. Confidence has accelerated dramatically and with it, the outlook for corporate activity.

Examining the other major drivers of corporate activity provides further confidence that we have entered a period where the macro environment is optimal for M&A activity. Corporates continue to maintain high levels of cash on balance sheets providing the financial capacity to undertake transformational transactions. Following the credit crisis, companies drastically cut costs, expenditures and suspended share buybacks, some even dividends. This contributed to a significant rise in cash levels which, at the end of 2013, stood 65% higher than those in 2007 for US companies (*Source: Factset*). According to our analysis, S&P companies (excluding financials) now have almost USD1.7tr of cash on their balance sheets and globally major US, European and Japanese companies hold more than USD2.0tr in aggregate. We are now seeing the deployment of this cash in the form of corporate activity, revolving around acquisitions.

Credit markets have been increasingly open with debt and equity issuances steadily increasing - a strong indication of the insatiable appetite investors have for leveraged transactions given a more stable macro and geopolitical environment. Although unexpected geopolitical events can always loom on the horizon, the level of stability within developed markets is the highest we have seen in recent years and certainly the most conducive to transformational corporate activity since the credit crisis. This was clearly illustrated in early March when Actavis issued USD21bn bonds to finance their acquisition of Allergan. The second largest corporate bond sale ever illustrates the demand for investment grade corporate securities and the never-ending hunt for yield in this zero/negative rate environment. Anecdotally, demand outstripped supply by more than four times. These types of data points can only further reinforce corporate confidence and push even reluctant players into the limelight, out of the shadows.

Historically corporate activity has been positively correlated with equity markets and macro stability. However, post 2009, this long term correlation broke down as we observed subdued M&A volumes, despite strong equity markets. We believe that lack of CEO confidence was the cause of this decoupling and that this confidence was the missing ingredient and in fact an obstructing factor for significant corporate activity. This phenomena has changed and since the beginning of the year has consistently and significantly strengthened.

A major boost has been the fact that markets have rewarded companies for sound strategic acquisitions. So far in 2015, we have witnessed positive share price performance of most acquirers during the days following their announced deals. In the month of February alone, according to our data, almost 86% of acquirers had positive equity performance in the week post the announcement of their acquisition. Those who did have positive performance were up nearly 8% on average, a significant endorsement of CEOs taking risk and announcing strong sensible strategic transactions. The final element has now been added to the mix with corporates feeling empowered to engage in corporate change, pursuing revenue growth via acquisitions, seeking additional geographical footprint, product and customer diversification, taking strategic risks which they did not feel comfortable doing over the past six years.

Complex deals continue to increase in volume and size. Hostile deals and counter-bids are still scarce but are becoming more common. Global cross-border deals, notoriously complex to understand due to their multiple jurisdictions and regulatory bodies, potential antitrust and diverse shareholder base, are also on the rise. 38% of M&A activity during the month of February was cross-border, the largest percentage in recent years, Ball Inc’s acquisition of Rexam (USD 8.5bn) being one prime example.

In terms of regions, so far this year the US continues to maintain the lion share of M&A volume globally, representing approximately 50% of all deals announced by value. EMEA comes in second place, representing approximately 30% of deal value, followed by Asia Pacific which represents approximately 20%. The key data point of note is the rebound in European M&A activity that we have observedsince the beginning of 2015. Not only have European acquirers become more active, with M&A volume announced by those participants up significantly, but also acquisitions of European targets increased by 25% in the first two months of the year, the highest volume since 2008 in the same period (*source Citi*). Overall the region's average deal size also significantly increased with 25 deals being announced which exceeded the USD1bn mark and just the 5 top deals announcedbeing worth in aggregate approximately USD24bn - the highest we have observed for years.

Looking forward, YTD2015 data provides momentum, the critical mass, confidence feeding confidence. The encouraging signs we saw in Q1 have been supported by March and April data, which further support a strong uplift in activity with various proposed mega transactions announced such as the highly publicised Royal Dutch Shell's USD79bn acquisition of BG Group, Pfizer's USD17bn acquisition of Hospira, Valeant's USD14bn acquisition of Salix and Staples' USD7bn acquisition of Office Depot. Large transformational deals are back on the table, CEO confidence has returned and with it we expect the surge in corporate activity to continue. M&A is back with a vengeance and, given the six years of pent-up demand, we expect this M&A boom to continue for the foreseeable future.

We believe we are at the beginning of a significant global cycle of corporate activity. Genuine reasons to retain cash to further bolster corporate balance sheets are wearing thin and fast. Company management now has compelling and persuasive reasons to engage in corporate activity.We are confident and excited about the opportunity set as it continues to improve in size, volume and geographical breakdown. We look forward to 2015 being a truly vintage year within our space.

Contacts:

Andrew McGrath – Chief Investment Officer
Tel: +(350) 2006 8880
Mobile: +44 (0) 7775 635 886
Email: andrew.mcgrath@burrencap.com

Shabir Chowdhary – Investor Relations
Tel: +44 (0) 207 382 8620
Mobile: +44 (0) 7710 609 796
Email: shabir.chowdhary@burrencap.com

Disclaimer

This document has been prepared by Burren Capital Advisors Limtied ("BCA") for information purposes only. BCA is registered as a limited company in Gibraltar (Company No. 103504), authorised and regulated by the Financial Services Commission (Licence No. FSC1097B), by the U.S. Securities Exchange Commission (Licence No. 157096), National Futures Authority (Licence No. 0440387) and Financial Conduct Authority (Licence No. 596076). This document is confidential and is for private circulation only. The information and opinions contained in this document are for background purposes only, do not purport to be full or complete and do not constitute investment advice nor the arranging of deals in investments. No reliance may be placed for any purpose on the information and opinions contained in this document or their accuracy or completeness. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information contained in this document by any of BCA, its members or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. This document does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any investment (including an interest in any fund proposed and managed by BCA (a "Burren Fund") or to provide services nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract therefor. Any investment in a Burren Fund may only be made on the basis of the prospectus for such fund when it becomes available. An authorised person has not approved the content on this document. For the purpose of section 21 of the Financial Services and Markets Act 2000 ("FSMA"), in the United Kingdom, this document is only being directed at (a) investment professionals as defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (the "Order") ("Investment Professionals"); (b) high net worth companies, unincorporated associations and other bodies falling within article 49(2)(a) to (d) of the Order ("High Net Worth Entities"); and (c) other persons to whom it may lawfully be communicated (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons and must not be passed on by you to any other person, whether or not they are a relevant person. If you are not a relevant person, under no circumstance should you rely on any information in this Document. For the purpose of section 21 of FSMA, in the United Kingdom, any prospectus will only be distributed to and directed at (a) Investment Professionals; (b) High Net Worth Entities; (c) sophisticated investors as defined in article 50(1) of the Order ("Sophisticated Investors"); and (d) other persons to whom it may lawfully be communicated.