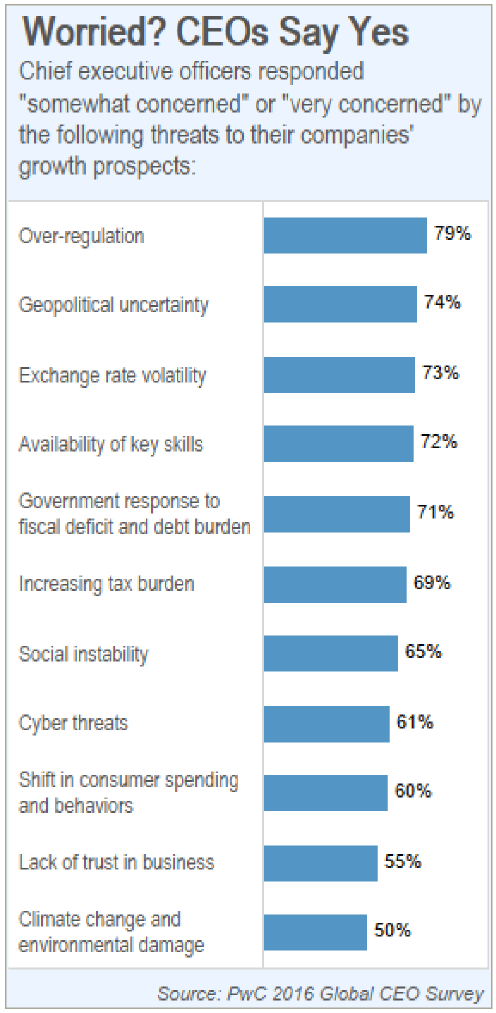
Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Waning CEO Confidence Another Drag On M&A Market

By **Chelsea Naso**

Law360, New York (February 12, 2016, 7:08 PM ET) -- Confidence among chief executive officers is falling as uncertainty about the global economic outlook settles in, a recent study found, adding another layer of difficulty to the already slowing M&A market, experts say.

A growing number of CEOs from around the world are feeling uneasy about a broad spectrum of issues, with exchange-rate volatility, geopolitical uncertainty and concerns about over-regulation topping the list, PricewaterhouseCoopers found in its 19th annual global CEO survey.



These issues, among others, are weighing on CEO confidence surrounding global economic and business growth, the survey found. Just 27 percent of CEOs reported having confidence in global economic growth, compared with 37 percent in 2015, and 35 percent of CEOs said they are confident in business growth prospects, down from 39 percent in 2015 and the lowest percentage since 2010.

The report, released this week, comes as the stock market seems unable to break free of the most recent wave of volatility, which has also contributed to a slowdown in M&A activity in the wake of the vibrant year of deal-making.

In January, announced global deal activity tapered to 2,929 deals worth $184.9 billion, compared with the 3,409 deals worth $276.8 billion inked in January 2015 and the 3,012 deals worth $424.7 billion announced in December, according to data tracked by Dealogic.

“The slip in deal volume in January may have been tied to the confidence issue in part, but that decline was also likely driven by the continued volatility in the equity markets, which we saw in December and even more in January,” said Latham & Watkins LLP partner Mark Gerstein, who is the global chair of the firm’s M&A practice.

For public companies, volatility can make it difficult to price a transaction, and it can also affect buyers' ability to finance transactions, noted Phillip Torrence, a Honigman Miller Schwartz and Cohn LLP partner.

"You would see much more steadfastness and confidence in deal certainty and execution if the capital markets were fine," Torrence said.

It's also likely that the volatility in the stock market is both reflecting and compounding the root of the unease expressed by the CEOs surveyed by PwC.

Oil prices have continued to fall, hitting lows on Feb. 11 not seen since 2003. Although that generally means more money in the hands of consumers, it can also be a signal of a faltering global economy. And while Europe has yet to fully recover from the financial crisis, Asia is also seeing its growth slow. China's move to devalue the yuan in August and renewed questions over the U.S. Federal Reserve's game plan for interest rates have also stirred concerns.

All of those factors foster uncertainty, which can be the nail in the coffin for deal-making, explained David Shine, a Paul Hastings LLP partner. And although individual aspects of uncertainty surrounding M&A can normally be worked around, having market volatility, economic uncertainty and questions about monetary policy strike all at once can be paralyzing.

"Uncertainty is the enemy of M&A," Shine said. "And we're in a triple whammy of uncertainty — the market, the economy and financing."

The high level of uncertainty has caused some companies to hold off from inking new deals, Shine said, as they try to wait and see where all the pieces land.

"I do think this holding pattern is going to continue until there is some meaningful reduction in this uncertainty," he said.

At the same time, however, uncertainty and volatility have not totally eclipsed the need for companies to increase revenue in a low-growth environment, meaning it's not all doom and gloom ahead for the M&A market, said William Kucera, a Mayer Brown LLP partner and co-chair of the firm's M&A practice in the Americas.

"You've got the classic M&A driver of buying growth," he said.

Companies may also be looking to diversify away from riskier or poorly performing assets or may look at a merger as a way to survive tougher times, Kucera noted. And inking a deal may give a company a very public way to show optimism.

"There's a desire among directors and management to generate some good news," Kucera said. "Many businesses are struggling for a variety of reasons, and deals may be positive."

So while deals will still be made, it's likely that the rationale behind them will change, explained Latham's Gerstein. More companies will be on the hunt to cut costs and adjust their portfolios, sending some searching for a partner for tax-motivated inversion deals and others looking for synergies.

"It's going to impact the rationale. In some cases, it might accelerate M&A," Gerstein said. "In each of those circumstances, you again find a company that can't necessarily organically grow itself out of the flat or declining markets or grow itself out of a particular risk in its portfolio of products that it will merge."

But it will still be difficult to rationalize deals in the $10 billion and up price range, as megadeals tend to see the acquiror put up large amounts of stock as currency, said Sarkis Jebejian, a Kirkland & Ellis LLP partner.

"For megadeals, the jury is still out with what happens to the equity markets," he said. "But the level below megadeals, I think people are still actively looking."

--Editing by Jeremy Barker and Philip Shea.
