US Market Penetration by Acquisition

Mergers & Acquisitions – Buy-Side

Corporations and private equity firms foresee an acceleration of merger and acquisition (M&A) activity in 2018, particularly in terms of the size of those transactions. From a sector perspective, technology and healthcare will drive M&A activity in North America because of the U.S.'s strength in tech innovation and the aging populations in advanced economies. Further consolidation within the energy and raw materials sectors should also continue to generate transactions in the coming years.

Companies involved in M&A have been most interested in acquiring relevant technologies. This in addition to expanding customer bases in existing markets, adding to product offerings and diversifying services rank as top three strategic imperatives. M&A also helps companies improve synergy, diversify, grow, expand their products and increase supply-chain pricing power and market share.

Some factors that have made foreign direct investors (FDIs) favor the U.S. for M&A deals include the recent slow international growth, political crises & ongoing wars in certain areas of the world, along with global economic uncertainty. Despite this uncertainty (listed as a key concern in Deloitte's 2018 M&A Trends Report), M&A is rising to the forefront. FDIs can use M&A as a tool for both smaller, strategic, niche acquisitions as well as bold transformative deals.

In PwC's *Global CEO Survey*, four out of 10 CEOs said their companies are targeting the U.S. for their growth prospects. That was reflected in the 6% rise in inbound deal volume through Q1 2017. A few months later, the pace picked up, with year-over-year volume up 10% through May. This could be a sign that overseas businesses are looking to the U.S. to compensate for uncertainties in markets such as China, South Korea and Russia, where economic prospects aren't as stable. These survey findings are consistent with other analyses, such as a UNCTAD forecast that the U.S. will be the favorite investment destination of global business through 2018, followed by China and India.

As markets adjust to ongoing political and regulatory changes, the M&A market should be buoyed by strong fundamentals and the potential for pro-business policy changes. In particular, opportunities may emerge from potential new U.S. policies, such as cash repatriation, corporate tax reform and more modest regulation.

Fears of increasing protectionism in 2016 morphed into uncertainty about policy that could affect global trade. However, despite trade barrier speculation, cross-border M&A has already been a hallmark of deal making in 2017, with a resurgence of deals between the U.S. and Western Europe. Companies are looking everywhere for pockets of growth, although the main focus has shifted back to developed markets, according to the EY 16th Global Capital Confidence Barometer (CCB).

Sluggish economic growth slowly spread out throughout the world over the past six years has made it more difficult to find the right partner for accelerating business growth. Only 1 out of every 6 investments by venture capitalists in the U.S. delivers its projected return on investment. With such dim prospects, how can FDIs take advantage of the M&A momentum, hasten their business growth, and overcome deal barriers?

Companies get the most out of their M&A deals with proper focus, preparation and execution. There is no substitute for a well-thought-out M&A strategy and a solid execution plan to improve prospects for the completion of a successful M&A deal.

COGNEGY can help FDIs every step of the way. COGNEGY has teamed with many foreign firms to identify the right target, engage in project discussions, perform both business and legal due diligence (with trusted partners), outline business valuation, craft deals, negotiate, integrate, and accelerate growth.

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