McKinsey Quarterly
JANUARY 2012

CORPORATE FINANCE PRACTICE

A mixed year for M&A

Global deal activity slowed in August, though measures of value creation continued to improve.

Carsten Buch Sivertsen

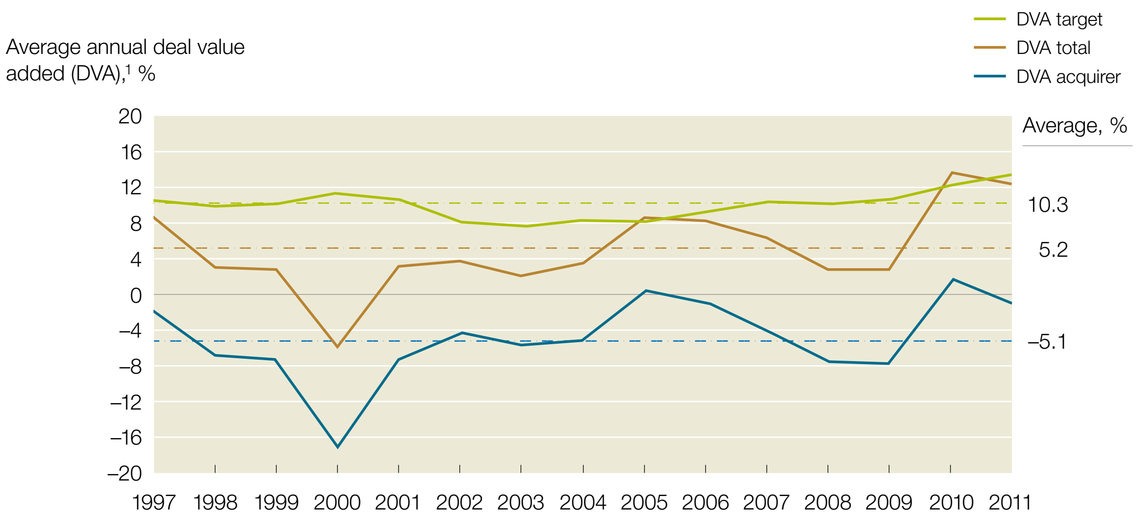
M&A activity slowed in 2011 as uncertainty surrounding the European sovereign-debt crisis continued to vex the global economy. The growth that characterized the first seven months of the year came to an abrupt halt in August as the crisis heightened, accompanied by a sharp 17 percent drop in the S&P 500 and a surge in volatility.[1] For the year, companies around the world announced 7,700 deals, valued at $2.7 trillion—a meager 3 percent increase from 2010.

Not surprisingly, activity among companies headquartered in Europe was most affected, falling by 26 percent between the first and second halves of 2011—compared with only an 18 and 9 percent drop among companies in the Americas and Asia, respectively. Overall, acquisitions by European companies constituted just 31 percent of M&A by volume, the lowest share for the region since 1998. Cross-border activity was also affected as Asian and US companies actively sought out deals in Europe. Although total activity for the year remained steady at the 2010 level, the amount of M&A into Europe by non-European acquirers increased to $220 billion because of a few large transactions and an increase in midsize and small acquisitions.

Despite the crisis and slowdown in activity, investors remain sanguine about deals. Our analyses showed that in 2011 they created almost as much value, measured as share price

Exhibit 1

The net value created by M&A remained close to 2010 levels.



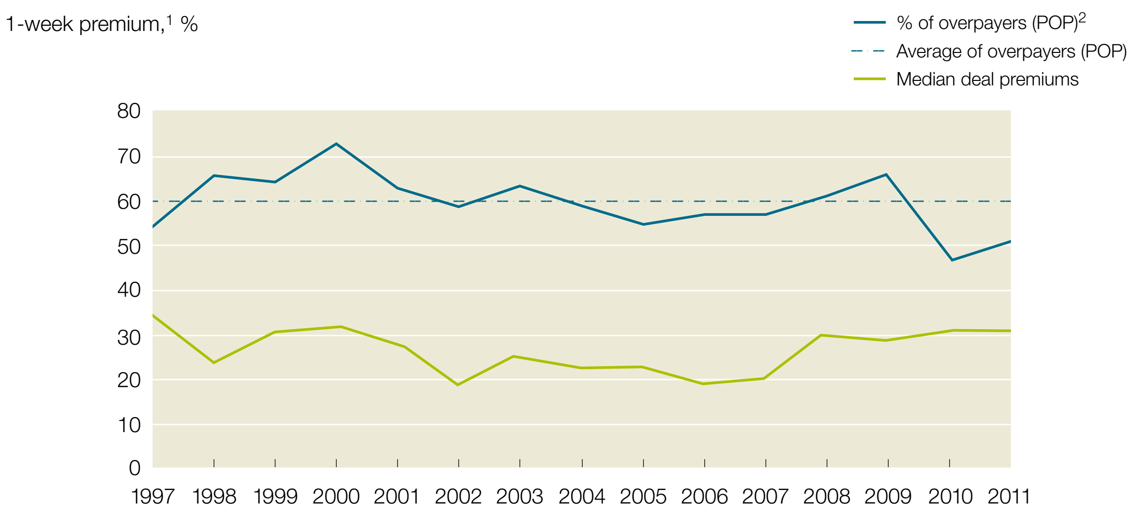
Number of deals	90	126	139	133	89	39	49	78	93	154	242	106	77	102	114

[1]For M&A involving publicly traded companies; DVA defined as combined (acquirer and target) change in market capitalization, adjusted for market movements, from 2 days prior to 2 days after announcement, as % of transaction value.

Source: Dealogic; Thomson Datastream; McKinsey analysis

Exhibit 2

Acquirers also sustained discipline in their deal making.



Number of deals	90	126	139	133	89	39	49	78	93	154	242	106	77	102	114

[1]For M&A deals involving publicly traded companies; 1-week premium = price offered per share vs target company's share price 1 week before announcement.
[2]POP defined as proportion of transactions in which share price reaction, adjusted for market movements, was negative for acquirer from 2 days prior to 2 days after announcement.

Source: Dealogic; Thomson Datastream; McKinsey analysis movements before and after the announcement,[2] as they did in 2010—the highest in our 15 years of tracking. The net value, measured as deal value added (DVA), dropped to 12 percent, from 13 percent in 2010, but remained considerably higher than the 15-year average of around 5 percent (Exhibit 1).

Acquirers also remained disciplined at capturing this value for their shareholders: the proportion of deals followed by a decline in the acquirer's share price—the percentage of overpayers—remained low at 51 percent, significantly better than the historic average of 60 percent (Exhibit 2). This implies that investors expected that half of all deals in 2011 would destroy value for the acquirer's shareholders, even as continued high premiums suggested that shareholders of the companies sold weren't getting shortchanged.

[1] Volatility peaked at 45 on the Chicago Board Options Exchange Volatility Index (VIX) during the crisis and hovered above 30 until early December, compared with a ten-year average VIX score of 22.

[2] Announcement effects are useful to assess the impact of M&A on its own, as they strip out many other factors, beyond the M&A announcement, that can drive share price movements. But the market's initial response to deals can be either wrong or affected by factors other than its value (such as bid speculation before the deal, signaling, and tax and market liquidity issues). Announcement effects therefore cannot be used to assess the value any individual deal creates.

The author would like to acknowledge the contribution of Tarun Khurana to the development of this article.

Carsten Buch Sivertsen (Carsten_Buch_Sivertsen@McKinsey.com) is an associate principal in McKinsey's Oslo office.