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Market Conditions Lead to Increase in Mergers & Acquisitions

By Dylan Peterson, J.D. Candidate 2017 | November 24, 2014

A strong stock market, low borrowing costs, and increased confidence in the global economy have created conditions ripe for the current boom in mergers & acquisitions (M&A). M&A deals targeting American companies have topped $1.5 trillion this year, while total global deals have reached the $3 billion mark for just the fifth time. These numbers are both up over 50% from a year ago and are the highest seen in the last seven years. This is strong evidence that the M&A market has completed its resurgence and has finally recovered from the malaise of the global financial crisis.

The increase in M&A spending has been particularly bolstered by huge deals in the health care, technology, energy, and media sectors of the economy. Deals have often been shaped by the rapidly changing nature of these industries. M&A activity in the tech industry this year has surpassed levels last seen prior to the burst of the dot-com bubble. Companies like Amazon, Microsoft, IBM, and Google have each been involved in individual deals in excess of $1 billion this year.

Although there has been strong growth in M&A this year, government regulation has threatened to slow down or block many of the major deals, with a number coming under scrutiny from the federal government over potential anti-trust issues. There is fear among market experts that regulatory uncertainty could slow the current M&A recovery. Softbank, the Japanese company that owns the wireless telecommunications corporation Sprint, already abandoned their intended acquisition of T-Mobile USA when it became clear that the deal would not satisfy government anti-trust regulators. Additionally, Comcast's $45 billion acquisition of Time Warner Cable is still on hold while government regulators determine the effect that the deal will have on consumers. If regulators block the Comcast deal, there is fear that it may cool down the hot M&A market. As Gregg R. Lemkau, global co-head of M&A at Goldman Sachs has said, "[n]o C.E.O. wants to do a 'bet the company deal' and not get it done."

While the M&A "boom" signifies a stronger economy and increased confidence, it has led to concerns that the stock market is overvalued and that we are bound to see a massive decline in equity prices before too long. The two largest previous "booms" in M&A activity were soon followed by sharp economic declines. Economists question whether systematic spurts of M&A activity are a good thing for the economy in the long run.

Other economic concerns also remain as companies continue to spend on M&A while wage growth and hiring has remained relatively flat. In addition, some have been critical of the generous compensation packages that many of the CEOs at companies that are being sold have and argue that these packages create an incentive for these CEOs to agree to deals that are not in

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the best interest of shareholders and the company. Studies have shown that generally these M&A deals are bad for shareholders in the long run.