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Global Economic Snapshot: Mixed Mood for M&A

The mergers and acquisitions (M&A) market hit record volume in the first half of 2018 before a hiccup caused by tariffs, regulatory changes and Brexit. The M&A boom began in 2014, and analysts feel that buoyant M&A over five years is long in the tooth.

Global deals volume in the third quarter of 2018 was down compared to the third quarter in 2017, according to Dealogic, mostly because of a downturn in deals targeted at Asia-Pacific and Europe, the Middle East and Africa (EMEA). This was a telltale sign of buyers' dampening appetite.

However, the EY semiannual Global Capital Confidence Barometer suggests that 96 percent of the executives surveyed predict that the M&A environment will improve or remain the same. Looking beyond the surface optimistic global view held by most of the executives, only 46 percent plan to actively pursue an acquisition in the next year, the lowest percentage in four years.

Technology changes continue to be front of mind for CEOs across the globe, including in the blue economy. Fear and competitive advantage promote interest in M&A worldwide. The speed of change is relentless, and M&A has proven to be an effective means to move quickly to gain competitive advantage or defend against future disruptors. According to the Global Barometer, a notable portion of the executives surveyed cite "disruptive forces" as the greatest near-term risk to the growth of their core businesses, and many of these disruptions are related to new technologies.

More specifically, C-level executives expect to pursue transactions that provide access to new markets (26 percent); respond to changing customer behavior (21 percent); and acquire talent (19 percent). Other motivations include securing supply chain and acquiring technology, production capabilities or innovative start-ups.

In recent years, shipping lines began focusing on technology investments and started technology-focused venture capital funds. Traditional freight forwarders launched digital-only transaction portals. Designs for autonomous trucks and containerships were unveiled. Shippers migrated to truly automated procurement and transportation platforms. Forwarders began using artificial intelligence providers to analyze and predict customer behavior, and port authorities engaged visibility providers to speed container flows.

More recently, blockchain came into its own, impacting documentation collection and supply chain finance and enhancing data security in the collaboration process. Logistics managers expect distributed ledger technology (DLT) to have a positive effect on security.

Logistic tech start-ups have been acquired in record numbers in the past several years. Shippers, forwarders and nonvessel operators (NVOs), as well as carriers, have acquired start-ups that have promising technology. High-volume shippers, a bellwether of the industry at large, may be challenged by small shippers that deploy e-commerce platforms embracing the preference of consumers. However, consolidation in the container shipping sectors through mergers and acquisitions slowed in 2018, and the slowdown is expected to continue. Industry analysts suggest that mid- and large-range freight forwarders will acquire tech-savvy companies as a shortcut into the digital market.

Counterbalancing some negatives in 2019 is healthy liquidity that will advantage private equity's participation. A combination of historically low interest rates and cheap financing means hunger for good deals and heightened competition for assets.

Despite market or political noise, technology disruption and pursuit of growth will drive M&A. Before jumping into a deal, it is critical to evaluate strategic alternatives; develop key value drivers of the transaction; prepare detailed confidential offering materials; identify and qualify potential buyers or sellers, domestically and internationally; and drive the transaction to a successful close. **ST**

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