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M&A Trends Report 2015
Our annual comprehensive look at the M&A market

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Executive Summary

Merger and acquisition activity in the U.S. surged last year, the most active 12 months of deals since before the global economic crisis took root in 2008.[1] That burst of activity doesn't appear to be just a temporary rebound. Executives at U.S. private equity firms and corporations expect the robust pace of mergers and acquisitions to extend—or even accelerate—beyond that strong showing in 2015, according to survey findings in Deloitte's second annual *M&A Trends Report*.

Of the 2,500 respondents from corporations and private equity firms, an overwhelming majority, 85 percent, of corporate executives, said they anticipate deal activity in 2015 will extend last year's momentum or even ramp up. On the private equity side, 94 percent of respondents—well above last year's expectations—said they foresee an extremely active year for transactions in 2015. A strong M&A environment is expected across the board, in private and public businesses, in multiple industry sectors, in companies and private equity firms large, small, and in between.

Several factors are making this a significant time for deal making. Corporate balance sheets remain flush with cash—in fact, an increased number of survey respondents this year said their cash reserves have swelled in the past 24 months. The U.S. stock market has continued its bull run, setting record highs in early 2015, and up until that point providing currency for transactions. The Federal Reserve has maintained its efforts to keep interest rates low, paving the way for companies to issue debt to finance deals if they choose that route. At the same time, the economy is forecast to grow at a restrained annual rate of no more than three percent a year through 2017, according to projections from Federal Reserve Board Members and Bank Presidents.[2] Combined, those factors may continue to spur companies and private equity firms to initiate transactions that can help position them to outpace the growth of the economy.

Among the key findings in our *2015 M&A Trends Report*:

- A vast majority of corporate respondents expect 2015 to be a strong year for M&A; 85 percent anticipate acceleration or at least sustaining 2014's heady pace, up from 84 percent in last year's report. Only 6 percent of respondents expect deal-making activity to decrease.
- Private equity respondents forecast increasing deal activity; 94 percent of respondents at these investment firms forecast average to very high deal activity, up from 89 percent a year earlier.
- More companies, 39 percent of all surveyed, expect to tap into the robust M&A environment to pursue divestitures; that's an increase of almost 25 percent.
- Private equity respondents anticipate ramping up both add-on acquisitions and portfolio exits in 2015.
- There's strong interest in overseas expansion this year, as opposed to last year, among both companies and private equity firms. Among private equity respondents, 85 percent indicated that their deals involve acquiring a company domiciled in a foreign market, up from 73 percent a year earlier. On the corporate side, 74 percent of respondents are investing overseas, up from 59 percent last year.
- The technology and health care sectors—as was the case in 2014—should see strong deal making activity. Energy, specifically oil and gas, surged up the ranks and is the second most likely sector to experience M&A activity.

A strong M&A environment is expected across the board, in private and public businesses, in multiple industry sectors, in companies and private equity firms large, small, and in between.

[1] Thomson Reuters, Mergers and Acquisitions Review, 2014

[2] Federal Reserve Bank, http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20150318.pdf, March 18, 2015

Despite increased deal-making activity—and expectations for another blockbuster year—almost 90 percent of corporate respondents said that completed transactions have fallen short of generating expected return on investment, the same as last year. On the private equity side, 96 percent of respondents said their deals fell short of targeted returns.

As we did last year, we drilled down into the numbers to focus on factors that can lead to success or impede a transaction from attaining its potential. Revealingly, fewer respondents this year pinned the blame on economic or market forces. Rather, many pointed to gaps in execution and not achieving synergies as reasons for transactions falling short of expectations.

In Deloitte's second annual *M&A Trends Report*, we share the views of the 2,500 executives in corporations and private equity firms who are pursuing a greater number of targets in more sectors in more markets and, often, with more money. We also share their view on what drives these entities to pursue deals, and what they have found critical to make them work. We are thrilled to share these results with you and hope they shed light on how you can make your next transactions successful ones.

Tom McGee

Tom McGee
Vice Chairman
Deloitte LLP

About the survey

From January 28, 2015, through February 10, 2015, a Deloitte survey conducted by OnResearch, a market research firm, polled 2,092 executives at U.S. companies and 408 executives at domestic-based private equity firms in order to gauge their expectations and experiences for merger and acquisition activity in the next year.

On the corporate side, respondents were senior executives at companies that have annual revenue of at least $10 million—and more than half hailed from companies with annual sales in excess of $500 million. The size of the respondents' companies covered a wide range, with about one-third having annual revenue of less than $250 million, another third in the $250 million to $1 billion range, and a final third with annual revenue of at least $1 billion.

The corporate respondents were split almost evenly among public and private corporations and were based in 49 states plus the District of Columbia. Of the company respondents, 30 percent were owners, board members, or C-suite executives, up from 23 percent in our inaugural report in 2014. The remainder included vice-presidents, department or business line heads, and managers.

Industries were diverse: the five with the largest representation were banking, technology, retail, professional services, and manufacturing.

On the private equity side, about 38 percent of the firms controlled funds of less than $500 million; 43 percent of PE respondents had funds with assets between $500 million and $3 billion; and 18 percent hailed from funds with investments in excess of $3 billion.

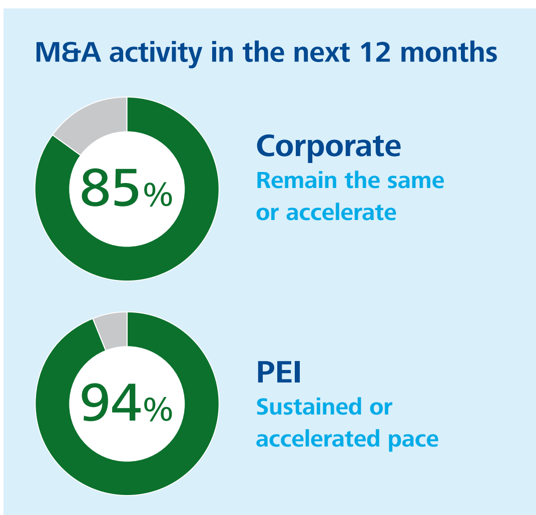
Only one in four of the private equity firms held investments in fewer than 10 companies. About half had between 10 and 40 companies in their investment portfolio and 27 percent had more than 40 companies in their portfolio.

The full survey results are included in the appendix; some percentages in the charts throughout this report may not add up to 100 percent due to rounding or to reflect questions where survey participants had the option to choose multiple responses.

The Outlook for Deals

Introduction

In 2013, companies in the U.S. began to slowly return to deal making. While the total number of domestic deals dipped in 2013, the value of those 2013 transactions rose 11 percent to $1.04 trillion.[3] The start of an M&A revival in 2013 reflected pent-up demand for corporate combinations, which had stalled amid economic malaise in some key European countries and emerging markets, as well as regulatory uncertainty closer to home over issues such as health care. In addition, several factors began to align to provide a strong environment for M&A—balance sheets swelling with cash; access to capital (either through debt or equity markets); and signs of steady, albeit slow economic growth.



In 2014, merger and acquisition activity accelerated meaningfully with those factors well entrenched. The number of deals in the U.S. rose 10 percent to 9,802. The aggregate value of those announced transactions surged 51 percent to more than $1.5 trillion—an increase of more than $500 billion in one year.[4]

2015 is showing no signs of slowing down. Announced deal activity for 2015 through March 25 stood at $746 billion, up 9 percent from $685 billion in the same period of 2014.[5] The year appears, by many estimates, to be on track to hit post-recession levels.

Momentum continues

Our survey findings indicate that 85 percent of corporate executives expect the pace of M&A activity to sustain or ramp up from 2014 levels in the next 12 months. That's consistent with expectations a year ago, when 84 percent of respondents said they expected activity to remain the same or accelerate. However, it's important to underscore that the 2014 expectations were from a far lower base looking out over a two-year horizon, not one year. Meanwhile, corporate executives also widely (84 percent) expect the size of transactions to remain the same or increase; only 4 percent said they expect deal size to shrink.

On the private equity side, 94 percent said that they foresee deal activity to be average to "very high" in 2015, up from 89 percent a year ago. Looking more closely at the responses, 63 percent said they expect deal activity to be "high" or "very high" in the ensuing 12 months, up from 52 percent a year earlier. In particular, large private equity firms are significantly more optimistic about deal activity—with 38 percent of firms that control more than $5 billion in assets expecting "very high" activity.

[3] Thomson Reuters, *Mergers and Acquisitions Review*, 2013

[4] Thomson Reuters, *Mergers and Acquisitions Review*, 2014

[5] "Why Dealmaking Looks a Lot Like a Sedan-Filled Highway," by Nick Kostov and Matt Turner, *The Wall Street Journal*, March 27, 2015

"We are seeing very bullish activity in a variety of sectors," said Tom McGee, Vice Chairman, Deloitte LLP. "The availability of financing combined with increased urgency on corporations and investment firms to deliver growth has positioned the U.S. to potentially hit pre-recession M&A activity levels in 2015."

By sector, 29 percent of corporate respondents predict that technology will be the most active in terms of deal activity, ranking it as the top industry for the second consecutive year. The healthcare providers and plans space held steady at 20 percent, ranking third. Energy, specifically the oil and gas subsector, surged to second in the ranks of the most likely areas for consolidation, with one-fourth of respondents citing this area up from 16 percent a year ago. The price of a barrel of crude fell more than 50 percent from $107 a barrel in mid-June 2014 to below $50 in early 2015, triggering expectations for consolidation in the industry as some company's market valuations plunged in step with the decline in crude. Alternative energy and consumer products rounded out the top five areas most likely to experience consolidation.

Top sectors for M&A activity

Technology

Oil and gas

Health care provider/plan

Drilling down further into the sector results revealed that the manufacturing and financial services sectors anticipate increases in the number of deals pursued, the value of a typical deal, and, logically, the total value of deals for a typical year. The telecommunications sector also expects an increase in the total value of deals over the next 12 months.

Increased transformational focus

Close to one in four corporate respondents indicated that they'd be seeking major transformational transactions to take advantage of the favorable conditions for mergers and acquisitions.

"We're seeing an increased number of companies that are stable and confident now—and poised to move the needle in a significant way," said Steve Joiner, partner, Deloitte & Touche LLP. "There's a strong convergence of conditions, a slow but steady economy, increasing confidence, strong corporate balance sheets, and available financing, setting the table for bold, transformational deals."

The number of corporate executives who cited transformative deals as their main strategy for M&A deals—24 percent—is an increase of 5 percent, from last year's survey. The two other leading strategic drivers behind M&A were: those that seek smaller deals (29 percent of survey respondents in 2015, down from 32 percent a year ago) and those that respond reactively to opportunities that arise (27 percent, up one point from last year).

We're seeing an increased number of companies that are **stable and confident** now—and poised to move the needle in a significant way.

On the private equity side, over half the respondents (55 percent) expect enterprise value for acquisitions to be at least $500 million. At the same time, almost half the firms (45 percent) continue to expect enterprise value for acquisitions to be less than $500 million. However, there was a sharp decrease in expectations for transactions that fall below the $100 million threshold, as only 18 percent of respondents expect deal size at the level, down from 26 percent a year ago. There also was a slight uptick (to five percent in 2015 from four percent in 2014) in anticipation for deals with an enterprise value in excess of $10 billion. In addition, there was a very sharp increase in expectations for club deals—with 71 percent of private equity respondents indicating that they foresee more club deals in 2015, up from 58 percent a year earlier.

"Many of the elements for a very strong and active year are in place for private equity firms—both in adding to the portfolio and exiting positions that have run their course," said Barry Curtis, partner, Deloitte & Touche LLP. "There's an enormous amount of collective firepower and the appetite for deal making is very strong."

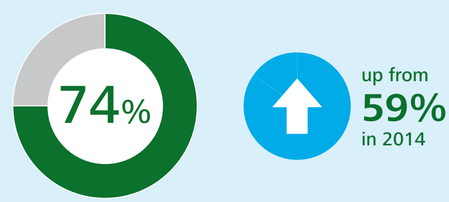
Expanding customer bases—domestically and abroad

For the second straight year, the leading reason to participate in an M&A transaction remains expanding customer bases. Just about half of all corporate respondents ranked increasing buyer penetration as the first or second objective for a merger or acquisition.

Entering into new geographic markets was the second most cited objective; half of corporate respondents named it as one of their top three deal rationales. For many companies, that means overseas expansion. This year, 74 percent of corporate respondents are investing in businesses in foreign markets, up from 59 percent last year.

Specifically, China remains the top foreign destination in terms of M&A, with 24 percent of executives citing the world's largest country as the No. 1 likely locale for a transaction. That number, however, is a sharp decline from last year when 33 percent cited China as the top foreign destination. Canada ranked a close second, with 23 percent of respondents ranking it as the No. 2 destination. Several developing markets—Brazil, Mexico, and India—ranked in the next batch of targeted countries for expansion. And developed markets—the United Kingdom, Germany, and Japan—also ranked high on the list as countries in which they are likely to pursue targets.

2015 Corporate respondents investing in businesses in foreign markets:



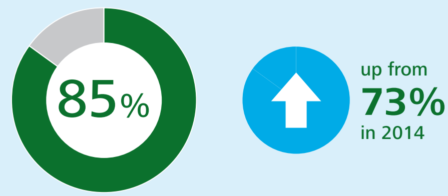
Which foreign markets are you most likely to pursue?

China
23.7%
Canada
22.6%
UK
19.4%
CORPORATE

Canada
32.2%
China
30.1%
UK
27.1%
PEI

Private equity firms matched corporate enthusiasm on overseas expansion. Most PE firms—85 percent of respondents—said that their deals involve acquiring a company domiciled in a foreign market, up from about 73 percent a year earlier. Canada supplanted the UK as the top targeted foreign market among private equity firms. China, Japan, and France rounded out the top five. Several European countries—France, Italy, Sweden, the Netherlands, and Poland each rose sharply as desired targeted countries for deals by private equity investors.

2015 PEI respondents investing in businesses in foreign markets:



There are several reasons why U.S. companies and private equity firms are looking abroad. After a six-year-long bull market, domestic stock valuations are high relative to those in other markets for publicly traded companies. The market's run also provides U.S. companies with ample currency to make acquisitions. U.S. companies also are spotting opportunities in Europe, where the economy is showing signs of accelerating in terms of mortgage lending and corporate purchases. The U.S. dollar hit a 12-year high against the euro, a six-year high against the yen and has soared in value compared with many emerging market currencies, also making overseas companies increasingly attractive[6]. "Relative valuations and the strong dollar may present strong opportunities for companies looking to expand their footprint in new overseas markets or bolster their position abroad," said Tom McGee.

Relative valuations and the strong dollar may present great opportunities for companies to expand their footprint in new overseas markets.

[6] CNN Money, "The dollar is crushing other currencies." March 10, 2015

Exits and divestitures are poised to grow—and add-on deals

Expectations are sky-high for increased divestments of portfolio companies, with about three-quarters of private equity respondents, up from two-thirds last year, anticipating an accelerated level of exits within the next 12 months. More than one-third of respondents expect the level of exits to increase by a significant margin. "It's a market both for sellers and buyers," Barry Curtis said. "For private equity firms who still have investments in companies they made before the economy dipped in 2008, now might be a good time to consider selling some businesses and further focusing the portfolio."

That last point—focusing the portfolio—jibes with survey results. Almost three-of-four private equity respondents in 2015 said their investments are creating more industry-specific portfolios, rather than an amalgamation on myriad businesses. That result was up from 68 percent a year earlier.

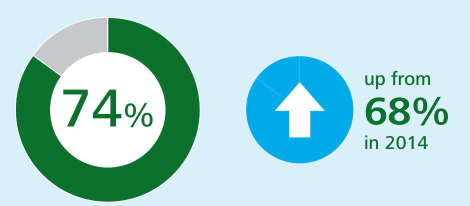
Private equity firms aren't just looking to exit from businesses; more than half surveyed this year anticipate making more than five add-on acquisitions in 2015, up sharply from last year. Of the respondents, 22 percent said they expect to make more than 11 add-on acquisitions in 2015, compared with just 14 percent a year earlier.

On the corporate side, there are significant expectations for a much more active year for divestitures. About 39 percent of corporate respondents reported they anticipate shedding a business in 2015, up about a quarter from 2014's responses. Among sectors, financial services firms appear to be among those most likely to pursue divestitures over the next 12 months, according to respondents.

Corporate respondents cited changes in the market as one of the main reasons for pursuing business divestitures, while shedding non-core assets or the opportunity to improve financing were also important drivers of divestitures, albeit to a lesser extent.

Steve Joiner said that strong multiples coupled with a desire to streamline focus are driving corporate appetites for divestitures. "Businesses that historically might have sold for a multiple of seven or eight are now able to obtain low double-digit multiples. That's enabling companies to take advantage of the market and get capital to deploy in their core business and strengthen their position."

Portfolio company exits

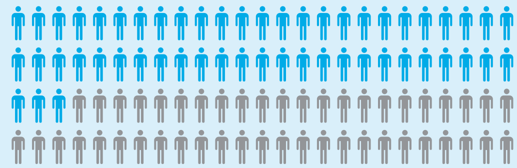


Financing: cash remains king—but IPO market is enticing

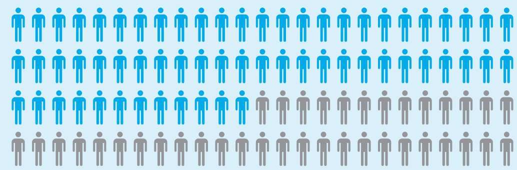
To finance transactions, cash remains the primary funding source, with more than 53 percent of corporate respondents citing available cash as the primary funding source for M&A deals. But that's down from 2014's results, when 58 percent cited available cash as the No. 1 funding source.

It's not surprising that companies would tap into their cash reserves. In the 2015 survey, some 62 percent of corporate respondents said that their cash reserves have increased, up from 59 percent a year earlier. In addition, almost half of corporate respondents said they'd use their excess cash reserves primarily to invest organically in their business. Alternatively, there was a decrease to 26 percent from 30 percent in the number of companies that said they'd use their cash to finance M&A deals.

On the private equity side, more than 60 percent said they expect a strategic sale will be the primary form of portfolio exit. Separately, there was a slight uptick among those who expect to turn to an initial public offering, with 38 percent of respondents looking to the IPO market, up from 36 percent a year earlier.



53% of corporate respondents said available cash will be primary funding source



62% of corporate respondents said that their cash has increased

Primary form of portfolio company exits

37.7%
IPO

62.3%
Strategic sale

Deal Dynamics: Inside Transactions

The revival of mergers and acquisitions, and expectations for more combinations to come, hasn't had a significant impact on the reality that transactions don't always work. In fact, they often fall short of generating at least a portion of their expected value or return on investment. Almost 90 percent corporate survey respondents and 96 percent of private equity investors said that at least some portion of their transaction fell short of anticipated benefits. That number is unchanged from 2014.

Because this number is so high, and as the rate of deal making appears likely to continue, the survey also focused on the areas of concern for corporate and private equity respondents, seeking to hone in on what factors can help position an organization for success and what issues they need to address.

Almost **90 percent** of corporate respondents and **96 percent** of PE respondents said some portion of their transaction fell short last year.

Reasons some deals don't deliver

Corporate respondents pinned blame on forces largely outside of their control as two of the chief reasons that some transactions have failed to generate anticipated results. Economic forces ranked as the main reason that deals didn't deliver, followed closely by sector or market forces.

However, right behind those two rationales—almost identical in the amount of responses—were two factors that companies do indeed control: execution and integration gaps and the failure to achieve synergies. All four of those reasons were cited by about 20 percent of corporate respondents. To a lesser degree, corporate respondents pointed to inadequate due diligence and changing regulations. These findings are in line with results from *Deloitte's Integration Report 2015: Putting the pieces together.* That report focused on the post-merger integration phase of the M&A lifecycle—what drives successes and what foils deals.

Private equity respondents, like their corporate counterparts, primarily pointed to market forces as well as economic forces. Execution gaps also were cited prominently as reasons that deal don't deliver. Private equity respondents were less concerned about realizing synergies than their corporate counterparts.

Reasons corporate respondents said their deals didn't deliver

1. **Economic forces**
2. **Market or sector forces**
3. **Execution/ integration gaps**
4. **Not achieving expected synergies**

And what factors can help make deals succeed

Macroeconomic and sector stability obviously are key to successful deals, reflecting the responses that economic and specific market forces can thwart transactions.

In addition, both corporate and private equity respondents cited accurate target valuation and effective integration as key areas to ensure a deal's success. The survey drilled down into these areas more closely, since they are the major areas of concern. On the corporate side, overstated revenue forecasts and understated expenses were the two paramount concerns of arriving at an accurate valuation. On the private equity side, the same two concerns were critical as was understated capital needs.

Both corporate and private equity respondents showed an increased emphasis on the importance of due diligence in the 2015 survey. On the corporate side, more respondents said it was important or extremely important to conduct due diligence to uncover hidden costs, contingencies, and commitments, as well to ensure the reliability of financial records and to understand projected cash flow and earnings. Those factors ranked of high importance with private equity respondents who also said due diligence is important in gauging the integrity and quality of management.

Private equity respondents also said they are focusing more on responsible growth issues. Three-of-four respondents on the private equity side, up from 68 percent a year ago, said that responsible growth issues were somewhat or very important. A similar amount of those respondents, 70 percent, said that privacy and security concerns were of a high or very high priority in a targeted acquisition and even more said it was so within their portfolio companies.

The role of analytics in M&A transactions

More and more companies and private equity firms are turning to technology-driven data-analytics to analyze merger and acquisition transactions. On the corporate side, 66 percent of respondents said they deploy data analytics in at least select areas of their deal analysis, up from 58 percent a year earlier. There was a five-percentage point gain among corporate respondents who said data analytics are a core component of deal analysis up from 21 percent in 2014's survey.

"As the volume of available transactions increases, companies are seeking more ways to leverage data to improve their insights in order to help validate their underlying investment thesis or to confirm their decision to walk away", said Brian Bird, director, Deloitte & Touche LLP. "There's pressure from boardrooms to make sure these deals succeed," Bird said. "And data analytics—which is a broad term, of course—if used correctly and applied to the right parts of a business can help guide major decisions."

Both corporate and private equity respondents showed an **increased emphasis** on the importance of **due diligence.**

PE respondents use data analytics

75%
up from 70 percent last year

PE respondents use data analytics with their portfolio companies

76%
up from 68 percent last year

66 percent of corporate respondents said they deploy data analytics in at least select areas of their deal analysis, up from **58 percent** in 2014.

Corporate respondents said the analysis of customers and markets remains the chief application of data analytics, for the second straight year. Workforce and compensation analysis ranked second, followed by the analysis of contracts and legal agreements, vendor analysis, and synergy identification. Bird said there's a reason why focus on customers and employees rank as the top two applications for analytics.

Complexity was cited by one-in-three corporate respondents, ranking it as the main impediment to deploying analytic technology for the second straight year. There was a sharp rise in pointing to confidentiality as an impediment to using data analytics, rising to 14 percent of responses, up from 10 percent a year earlier. Other reasons included the time and cost required to undergo analysis.

On the private equity side, the use of data analytics also increased in the past year, and is more ubiquitous. More than 75 percent of private equity respondents said they use these tools in at least select areas, up from about 70 percent a year earlier. An increasing number of private equity respondents also said they were using data analytics in the management of their portfolio companies—76 percent up from 68 percent a year earlier.

Divestitures gaining momentum

There was a striking increase in the number of companies that expect to pursue divestitures in 2015, an almost one-quarter gain to 39 percent of corporate respondents up from 31 percent a year earlier. This trend is being fueled mainly by more companies including divestitures as part of strategy, said Andy Wilson, partner, Deloitte and Touche LLP. "The main motivations for divestiture are tied to broader, strategic objectives—enabling a business to focus on core assets and react to change in the marketplace," Wilson said.

Almost one-in-three corporate respondents cited shedding non-core assets as the top driver for divestitures in the 2015 survey. Those assets could have limited growth potential, consist of non-synergistic products or services, have a weak market position or suffer from poor operating performance. Changes in the marketplace and countering competitors ranked as the second-most cited reason a company would divest a business. "There's a host of strategic reasons that a business might not fit—and the capital raised from selling or spinning off that business could be better deployed elsewhere within the corporation to position it better in the changing marketplace," Wilson said.

There was a rise in the number of respondents citing financial factors, 26 percent, up from 23 percent a year earlier. Indeed, the financial environment is very welcoming for divestitures, Wilson said. Multiples for businesses have risen, private equity firms have record-high cash reserves, and the market for corporate spin-offs and IPOs is stronger than it has been in the recent past.

Just because the market is strong, though, sellers need to plan carefully for a divestiture. Approaching the sale from a buyer's perspective can increase transaction value and reduce the time it takes to close a deal, Wilson said. Another important—and often overlooked—component in pulling off a successful divestiture can be focusing on people. "Not communicating is one of the biggest factors that can sink a divestiture," Wilson said. Companies should focus on keeping employees motivated and provide clarity into the divestiture strategy to retain and mobilize talent around executing the transaction.

"It's currently a sellers' market," Wilson said. "That doesn't mean the seller doesn't have to be prepared—but there's ample opportunity to divest a non-essential business, raise capital, and focus on core operations."

39%
of respondents will pursue a divestiture in 2015
up from 31 percent in 2014

1 in 3 respondents cited shedding non-core assets as the top driver for divestitures

It's a sellers' market. That doesn't mean the seller doesn't have to be prepared—but there's ample opportunity to divest a non-essential business, raise capital and focus on core operations.

Conclusion

Companies are continuing to pursue mergers and acquisitions as a strategic growth path. By many measures, the environment couldn't be more conducive: there's ample cash on corporate balance sheets, easy access to debt and equity markets, and the economy is stable and growing at a steady pace.

"The table is well set for 2015 to be another strong year for transactions," said McGee. "We've seen a fairly robust deal-flow in the first few months of 2015 and we could be positioned to hit pre-recession M&A activity levels for the year."

In Deloitte's second annual *M&A Trends Report*, 2,500 respondents shared that bullishness and indicated that 2015 appears to be poised for more and bigger deals. Strikingly, the enthusiasm for M&A was widespread. Companies large and small, public and private and in a wide variety of sectors are looking at transactions to help deliver growth. Divestitures are expected to increase. And overseas expansion continues to be a focus, as overall merger and acquisition activity approaches pre-recession levels.

The continued reliance on transactions for growth raises the stakes for making M&A work. A preponderance of deals, though, fall short of their anticipated goals— due to a raft of external factors outside of the control of the buyer but also because of internal shortcomings. Market and economic forces surfaced as the main reasons transactions faltered among corporate and private equity firms surveyed.

And increasingly, technology has become a core component of merger and acquisition transactions, as greater numbers of firms report the use data analytics to capture and interpret data.

"Those who prepare and focus on leading practices are the ones who have the opportunity to get the most out of their next merger or acquisition," McGee said.

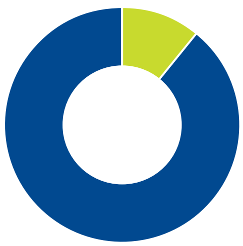
Appendix

Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

Acknowledgment
We would like to thank all survey respondents and interviewees for their time and the insights they shared for this report, *M&A Trends Report 2015*.

Corporate responses

Which of the following best describes your current occupation?



Owner of a business: **10.9%**

Working full-time for a company: **89.1%**

Working part-time for a company: **0%**

Retired: **0%**

Not currently employed: **0%**

Other: **0%**

Which of the following best describes your title or role in your company?

Owner
8.1%

Operating Partner
1.8%

Board member
1.1%

CEO/President
5.1%

COO
1.9%

CFO
4.1%

CTO/CIO
5.4%

Other C—level executive
2.9%

Senior Managing Director
7.6%

Managing Director
9.9%

Head of business unit or department
6.2%

Senior Vice President
5.0%

Vice President
13.8%

In-house counsel/general counsel
0.5%

Principal
0.5%

Controller
3.1%

Senior Director
3.9%

Senior Associate
1.5%

Associate
2.2%

Director
15.6%

Senior Manager
0%

Manager
0%

Other:
0%

In which function do you work?

Corporate development
5.9%

Finance
12.4%

HR
6.6%

Marketing
6.0%

M&A
1.6%

Sales
16.6%

Strategy
5.2%

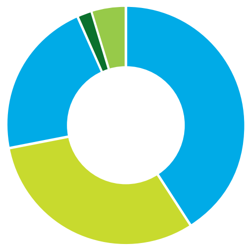
Operations
29.1%

Other
16.4%

Is your company public or privately-held?

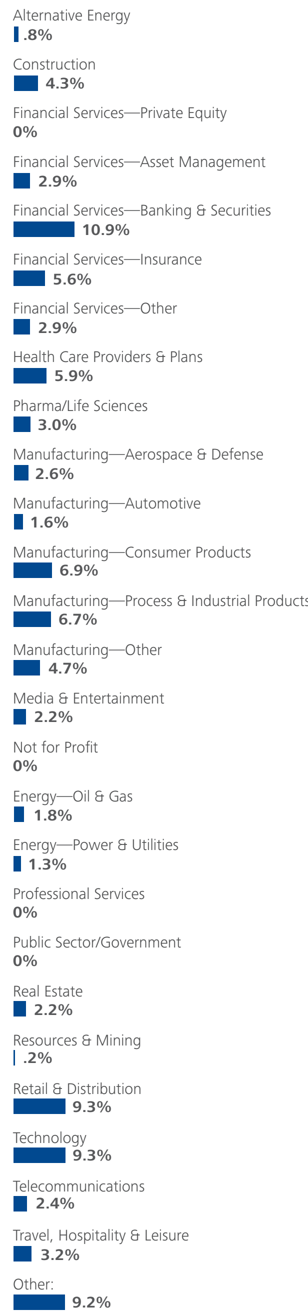
- Public company: **52%**
- Privately-held: **48%**

Which of the following describes your company?

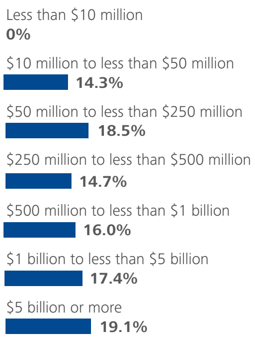


- Family-owned: **41.1%**
- Closely held (non-family): **30.9%**
- Private equity owned (e.g., portfolio company): **21.5%**
- Venture-capital-backed: **1.8%**
- Other: **4.7%**

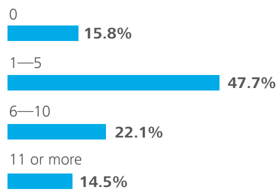
What is your company's primary industry?



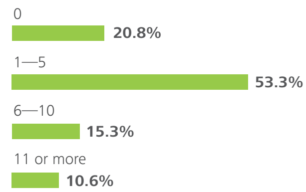
What is the annual revenue of your company?



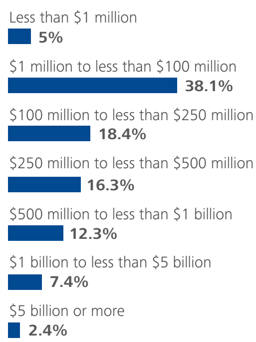
How many M&A transactions does your company actively pursue in a typical year? (i.e., have selected a target and are beginning active negotiations with a goal to enter the diligence phase)



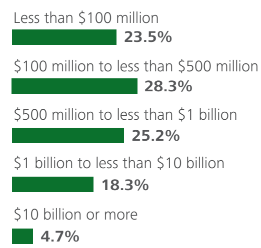
How many M&A transactions does your company close in a typical year?



What is the typical size of a deal your company completes in a typical year?

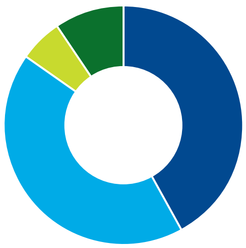


What is the total annual dollar value (aggregate enterprise value) of all the deals your company completes in a typical year?



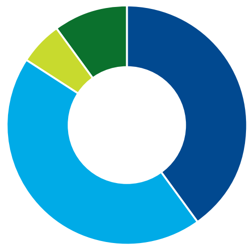
Do you expect the average number of deals that your company actively pursues to increase or decrease over the next 12 months?

2015



- Increase: **42.0%**
- Little or no change: **42.8%**
- Decrease: **5.8%**
- N/A: Not expecting significant M&A over next few years: **9.4%**

*2014

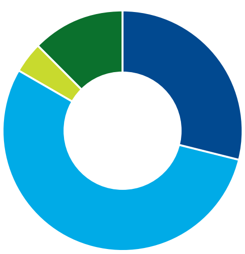


- Increase: **40.2%**
- Little or no change: **44.0%**
- Decrease: **5.8%**
- N/A: Not expecting significant M&A over next few years: **10.0%**

**2014 timeframe = two years*

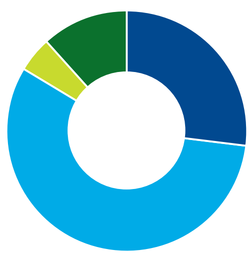
Do you expect the average deal size that your company actively pursues to increase or decrease over the next 12 months?

2015



- Increase: **28.9%**
- Little or no change: **54.6%**
- Decrease: **4.0%**
- N/A: Not expecting significant M&A over next few years: **12.5%**

*2014

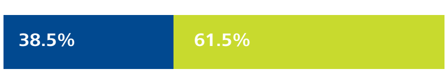


- Increase: **27.0%**
- Little or no change: **56.7%**
- Decrease: **4.8%**
- N/A: Not expecting significant M&A over next few years: **11.5%**

**2014 timeframe = two years*

Do you expect your company to pursue divestitures over the next 12 months?

2015

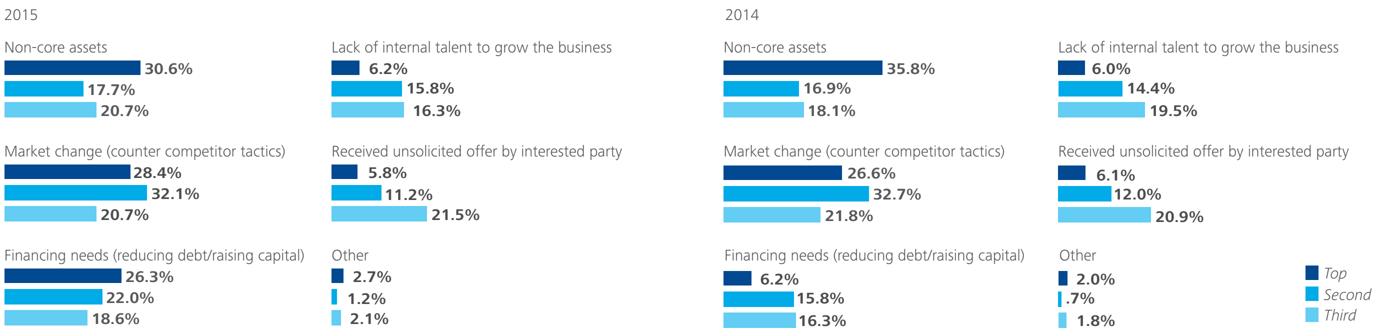


- Yes
- No

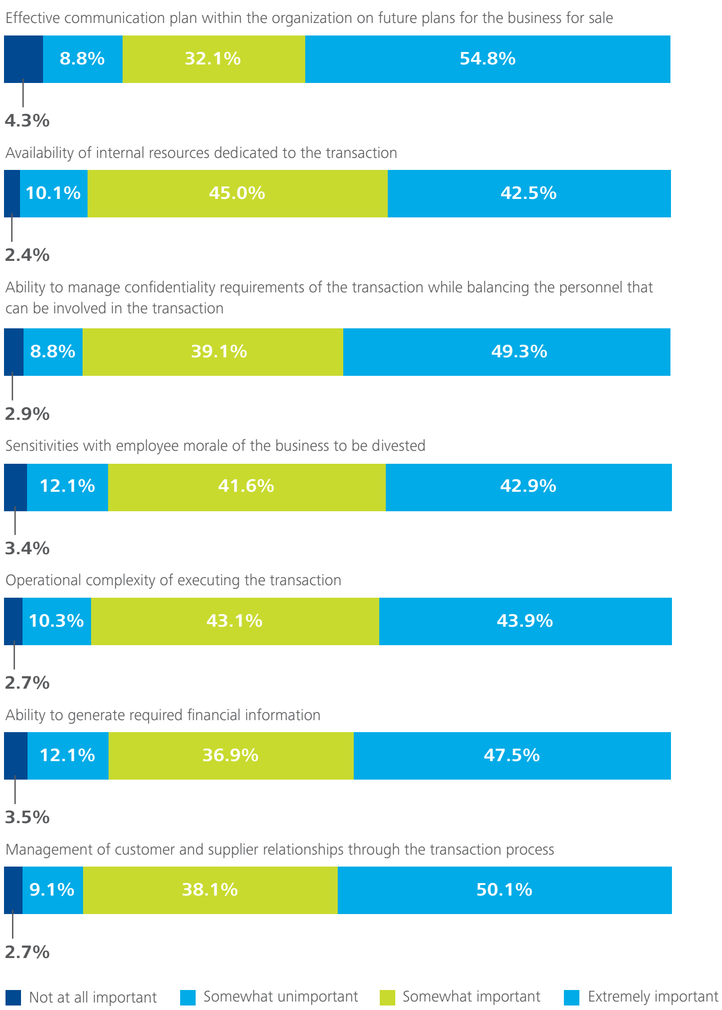
2014

- Yes
- No

Please rank in order of importance the top 3 reasons for divesting a business as they apply to your company. Please type a 1, 2 or 3 next to each of your top reasons (1 = Top; 2 = Second; 3 = Third)



Please rate the following concerns with respect to their importance to your company's ability to achieve a successful divestiture.

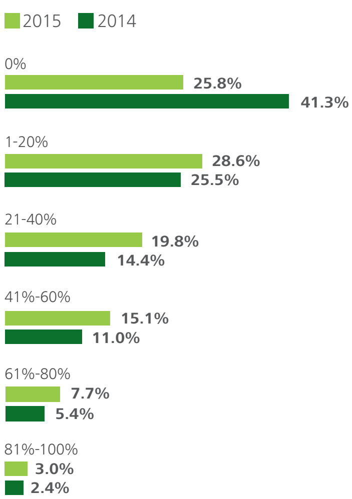


What is your company's M&A strategy for the next 12 months?

Please rank your top 3 M&A objectives, in order of their importance, with respect to your company's M&A strategy for the next 12 months.

	Ranked 1	Ranked 2	Ranked 3
Expand customer base in existing geographic markets	28.5%	20.0%	13.2%
Enter new geographic markets	17.9%	17.2%	15.2%
Pursue cost synergies or scale efficiencies	17.7%	12.9%	16.2%
Product/service diversification/expansion	16.8%	17.2%	16.1%
Obtain bargain-priced assets	6.9%	13.8%	11.7%
Technology acquisition	6.9%	9.5%	14.0%
Talent acquisition	4.5%	8.7%	12.9%
Other	0.2%	0.1%	0.2%

What percentage of your company's M&A deals involve acquiring targets operating principally in foreign markets?



Which foreign markets are you most likely to pursue?

2015	
China	23.7%
Canada	22.6%
UK	19.4%
Mexico	15.8%
Brazil	15.6%
Germany	14.8%
Japan	12.5%
India	12.0%
France	10.9%
Italy	6.9%
South Korea	5.7%
Other	5.6%
Spain	5.5%
Argentina	5.4%
Taiwan	4.9%
Singapore	4.8%
Ireland	4.4%
Thailand	4.2%
Colombia	4.1%
Sweden	4.1%
South Africa	3.9%
United Arab Emirates	3.9%
Chile	3.8%
Russia	3.8%
Malaysia	3.6%
Israel	3.3%
Netherlands	3.1%
Norway	3.0%
Costa Rica	3.0%
Indonesia	2.9%
Saudi Arabia	2.9%
Denmark	2.8%
Peru	2.8%
Turkey	2.7%
Vietnam	2.7%
Finland	2.5%
Poland	2.4%
North Africa	2.2%
Panama	1.9%
Qatar	1.9%
Czech Republic	1.6%
Hungary	1.5%
Sub-Saharan (excluding South Africa)	1.3%
Bahrain	1.0%
Uruguay	0.8%

2014	
China	32.5%
Canada	25.9%
UK	25.4%
Brazil	23.0%
Mexico	19.6%
Germany	19.4%
India	18.3%
Japan	17.1%
France	13.6%
Italy	10.3%
Singapore	10.0%
South Korea	9.0%
Argentina	8.1%
Spain	8.1%
Thailand	7.3%
Taiwan	6.6%
Netherlands	6.2%
Chile	6.1%
Malaysia	6.1%
South Africa	6.1%
Russia	6.0%
United Arab Emirates	5.6%
Ireland	5.1%
Israel	4.8%
Costa Rica	4.5%
Colombia	4.4%
Saudi Arabia	4.4%
Indonesia	4.3%
Sweden	4.2%
Denmark	4.1%
Peru	4.0%
Turkey	3.6%
Poland	3.5%
North Africa	3.4%
Norway	3.1%
Vietnam	3.1%
Panama	2.8%
Finland	2.7%
Hungary	2.2%
Sub-Saharan (excluding South Africa)	2.2%
Czech Republic	2.0%
Bahrain	1.7%
Qatar	1.5%
Uruguay	1.3%

Over the next 12 months, do you expect your company's growth to be primarily driven through acquisition or organic growth?

2015

Growth through acquisition: **35.9%**

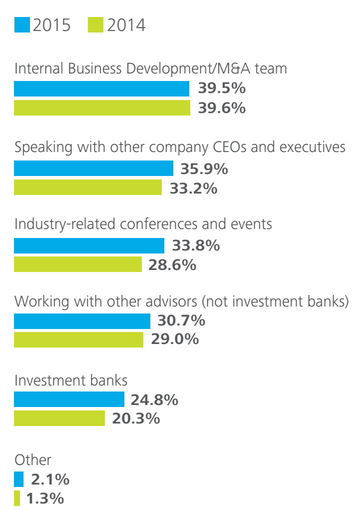
Organic growth: **64.1%**

2014

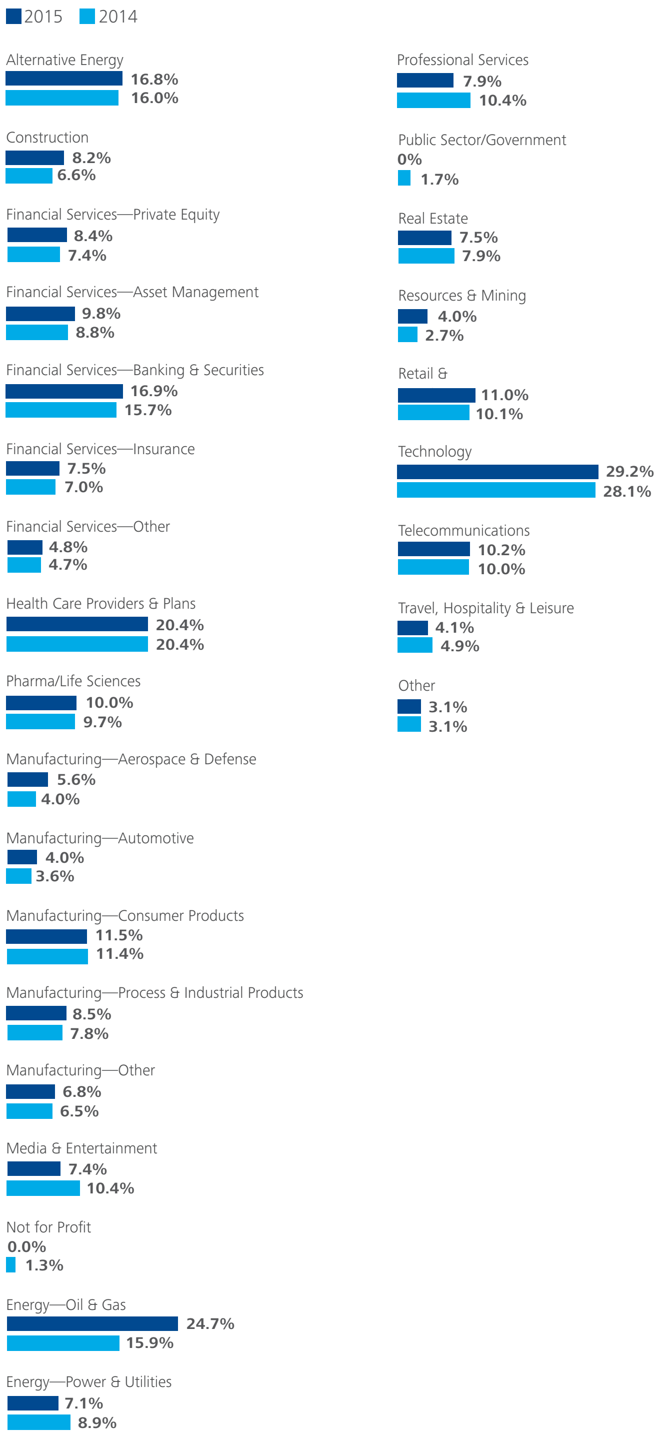
Growth through M&A transations: **33.2%**

Organic growth: **66.8%**

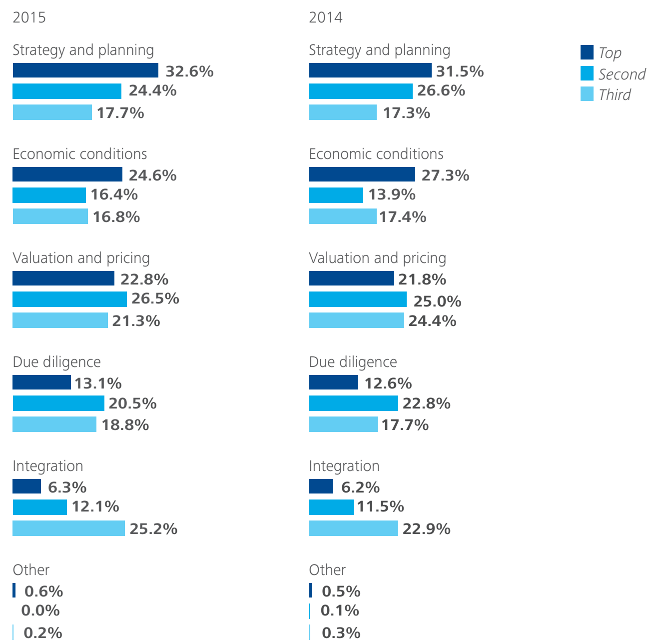
How do you typically identify M&A opportunities? Please select all that apply.



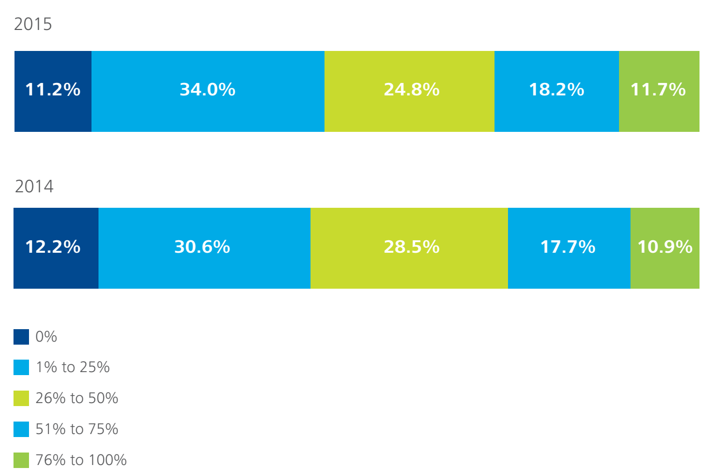
What do you see as the top three industries for M&A activity in the next 12 months?



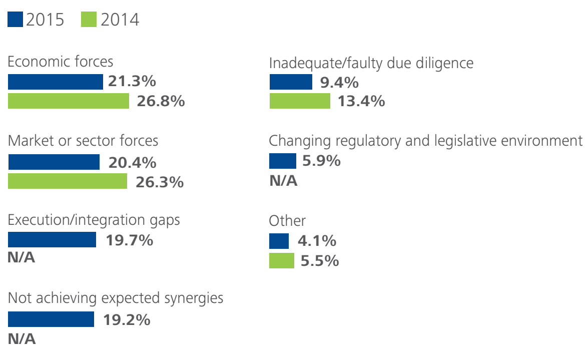
Please rank in order of importance the top 3 reasons for divesting a business as they apply to your company. Please type a 1, 2 or 3 next to each of your top reasons (1 = Top; 2 = Second; 3 = Third)



For transactions your company has completed within the past 2 years, what percentage has not generated their expected value or return on investment?



For those transactions that have not generated expected value for your company, what was the main reason?

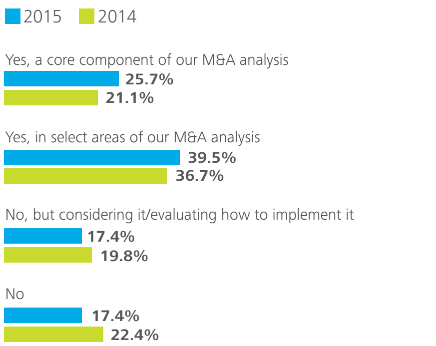


Please rate the following concerns with respect to their importance in achieving a successful M&A transaction for your company.

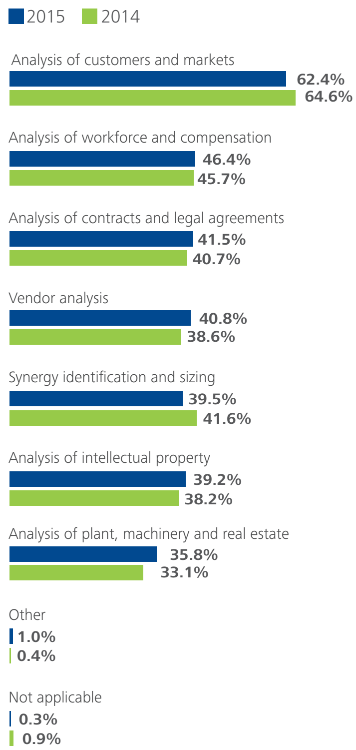
Please rate the following concerns in terms of their importance in accurately valuing a target.

Please rate the following concerns in terms of their importance with respect to your company's due diligence process.

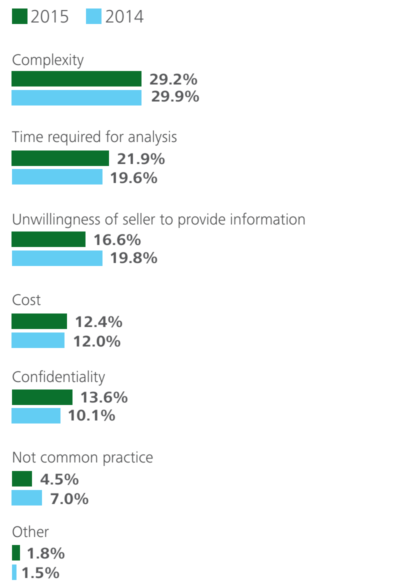
Does your company deploy technology-driven data analytics in M&A?



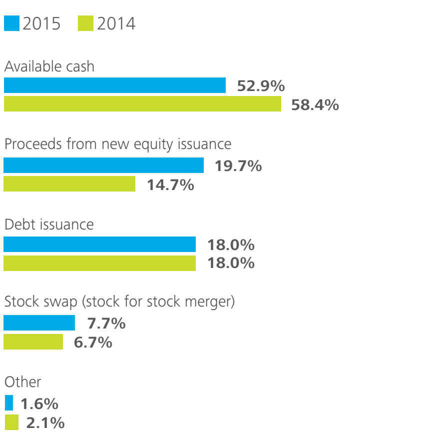
How has your company applied data analytics? Please select all that apply.



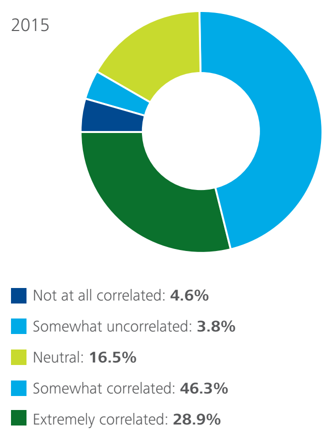
What do you think is the greatest impediment to the use of data analytics in M&A?

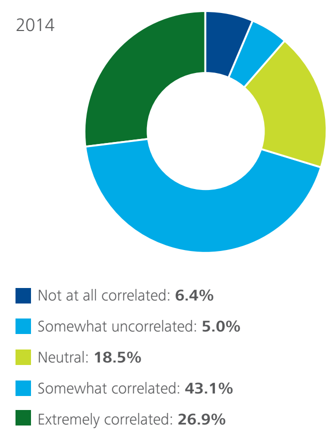


Over the next 12 months, what do you expect may be the primary funding source for your company's M&A investments?

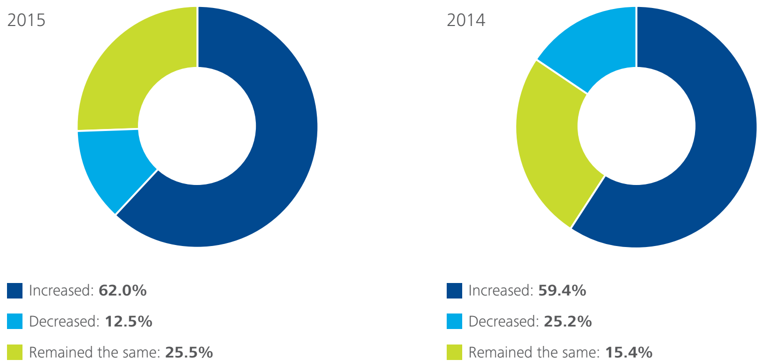


If your company plans to issue debt, how strongly correlated are those plans with a favorable interest rate environment?

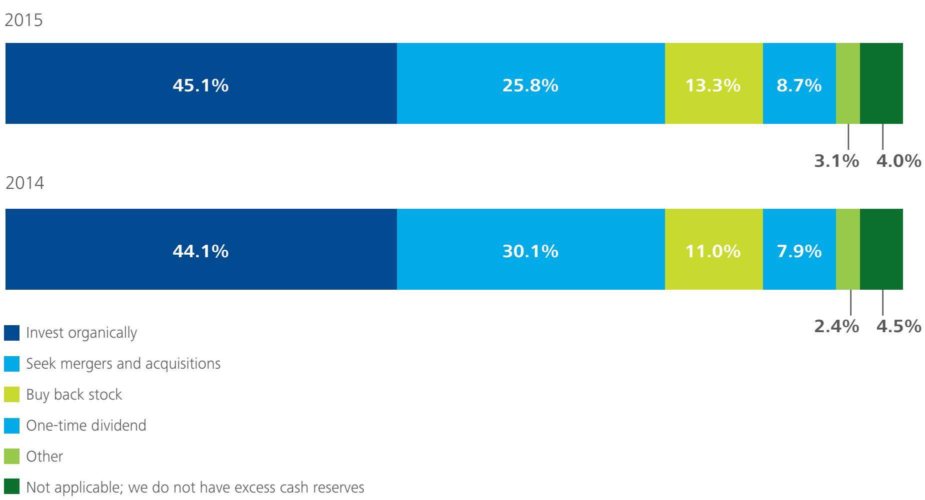




Compared to 2 years ago, how have the cash reserves on your company's balance sheet changed?



What is the primary intended use of your company's excess cash reserves? Please select only ONE.



PEI responses

Which of the following best describes your current occupation?

- Owner of a business: **27.7%**
- Working full-time for a company: **72.3%**
- Working part-time for a company: **0%**
- Retired: **0%**
- Not currently employed: **0%**
- Other: **0%**

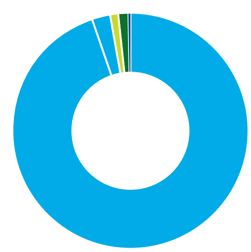
Which of the following best describes your title or role in your company?

Owner **22.1%**
Operating Partner **2.9%**
Board member **2.9%**
CEO/President **14.5%**
COO **2.5%**
CFO **2.9%**
CTO/CIO **9.3%**
Other C—level executive **2.5%**
Senior Managing Director **4.9%**
Managing Director **10.3%**
Head of business unit or department **5.1%**
Senior Vice President **2.2%**
Vice President **14.4%**
In-house counsel/general counsel **0.2%**
Principal **0.2%**
Controller **2.7%**
Senior Director **3.7%**
Senior Associate **1.2%**
Associate **0.7%**
Director **4.7%**
Senior Manager **0%**
Manager **0%**
Other: **0%**

In which function do you work?

Corporate development **17.5%**
Finance **13.0%**
HR **4.5%**
Marketing **6.5%**
M&A **1.3%**
Sales **9.7%**
Strategy **7.1%**
Operations **27.9%**
Other **12.3%**

Which of the following describes your company?



- Private equity investor: **94.9**
- Family-owned: **2.5**
- Closely held (non-family): **1.2**
- Private equity owned (e.g., portfolio company): **1.2**
- Other: **0.2%**
- VC-backed: **0.0**

In what industries does your firm primarily focus its investments? Please rank your top 3 industries. Please type a 1, 2 or 3 next to each of your top industries (1 = Top; 2 = Second; 3 = Third)

2015

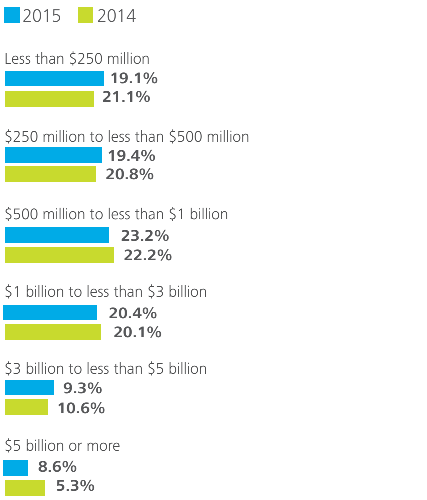
	Top	Second	Third
Financial Services—Banking & Securities	13.2%	8.3%	5.1%
Alternative Energy	9.3%	2.7%	3.2%
Construction	7.4%	6.9%	5.6%
Technology	9.1%	6.9%	8.6%
Health Care Providers & Plans	7.1%	4.9%	2.5%
Financial Services—Insurance	6.6%	5.9%	4.7%
Manufacturing—Consumer Products	6.6%	6.4%	4.2%
Professional Services	5.9%	8.1%	6.1%
Manufacturing—Process & Industrial Products	4.9%	3.9%	4.4%
Real Estate	4.7%	4.2%	3.9%
Financial Services—Other	3.9%	4.7%	6.6%
Life Sciences	3.4%	2.7%	2.5%
Retail & Distribution	3.4%	2.9%	5.6%
Manufacturing—Other	3.2%	2.5%	4.2%
Media & Entertainment	2.0%	2.0%	2.9%
Energy—Oil & Gas	2.0%	3.4%	2.9%
Manufacturing—Automotive	1.2%	4.9%	2.2%
Manufacturing—Aerospace & Defense	1.0%	2.2%	1.7%
Travel, Hospitality & Leisure	1.0%	1.2%	2.2%
Energy—Power & Utilities	0.7%	1.7%	1.5%
Telecommunications	0.7%	4.7%	3.9%
Resources & Mining	0.2%	1.0%	2.0%
Financial Services—Private Equity	0%	0%	0%
Financial Services—Asset Management	0%	0%	0%
Other:	2.5%	0.2%	1.0%

2014

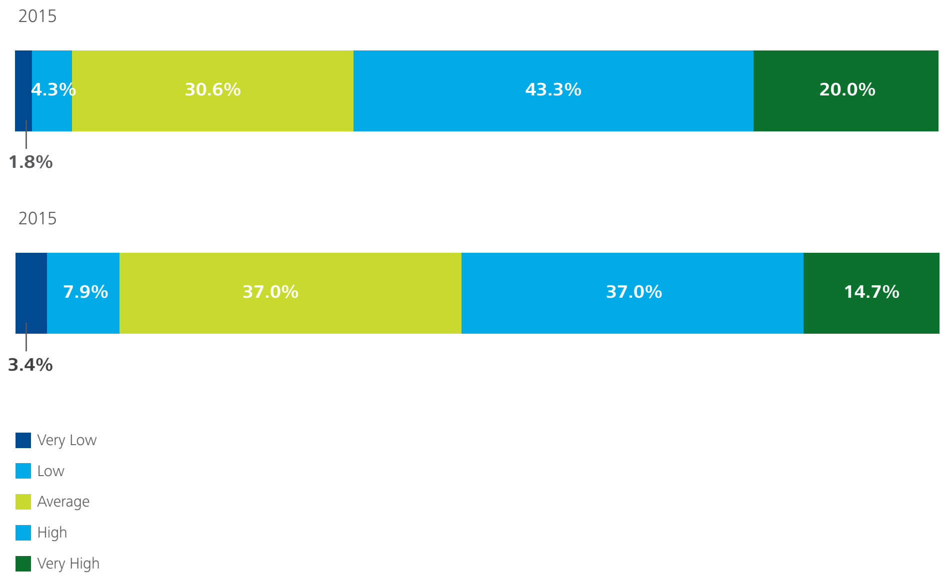
	Top	Second	Third
Manufacturing	21.1%	15.0%	10.7%
Financial Services	15.2%	16.0%	14.8%
Energy	10.7%	8.2%	7.2%
Health Care and Life Sciences	10.4%	6.0%	5.7%
Technology	8.5%	7.9%	5.3%
Professional Services	8.2%	10.1%	9.4%
Retail & Distribution	6.9%	3.1%	3.5%
Travel, Hospitality & Leisure	3.5%	2.8%	5.7%
Telecommunications	2.5%	5.7%	3.5%
Real Estate	1.9%	2.8%	4.1%
Media & Entertainment	1.3%	0.9%	1.3%
Resources & Mining	0%	1.3%	0.9%
Other	6.3%	0%	1.9%

Top
Second
Third

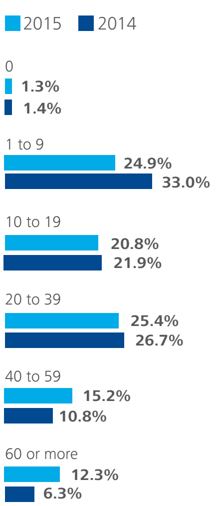
What is the size of your current fund?



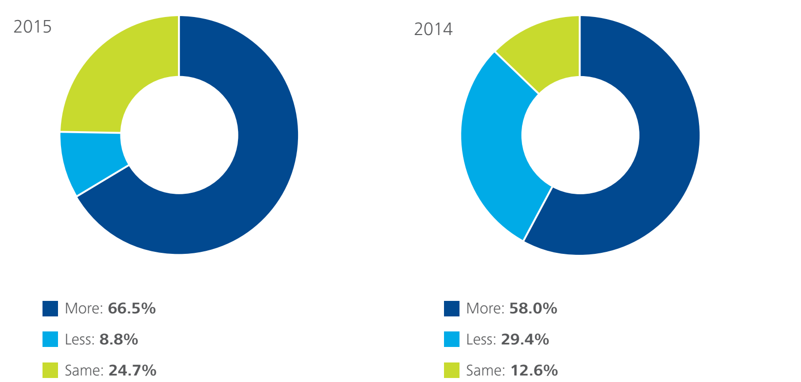
What are your firm's expectations for deal activity over the next 12 months?



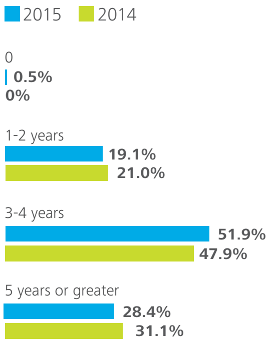
How many companies are in your firm's current portfolio?



Do you have more or less companies in your firm's portfolio today than you had 5 years ago?

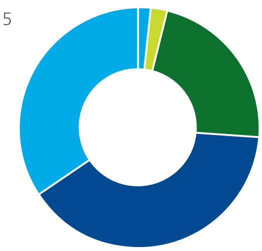


What is the intended blended holding period for your firm's portfolio?



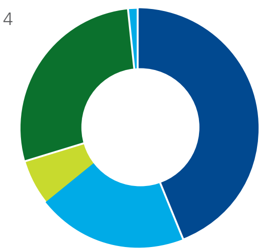
What is your expectation regarding the level of portfolio company investment exits in the market over the next 12 months?

2015



- Significantly increase: **34.2%**
- Somewhat increase: **39.6%**
- Neutral: **22.4%**
- Somewhat decrease: **2.3%**
- Significantly decrease: **1.5%**

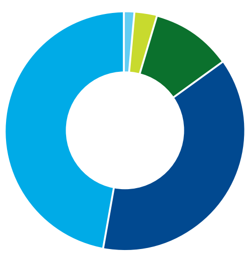
2014



- Significantly increase: **20.5%**
- Somewhat increase: **43.9%**
- Neutral: **28.1%**
- Somewhat decrease: **6.1%**
- Significantly decrease: **1.4%**

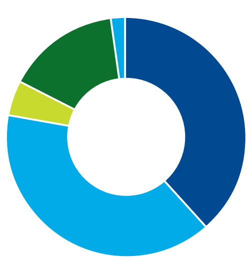
What is your firm's overall level of involvement with the management of your portfolio companies?

2015



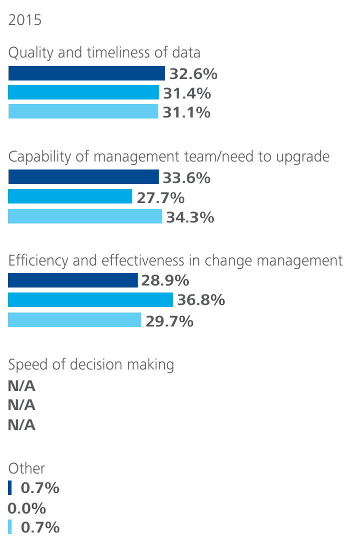
- Very active: **47.1%**
- Somewhat active: **37.7%**
- Neutral: **11.0%**
- Somewhat passive: **2.9%**
- Very passive: **1.3%**

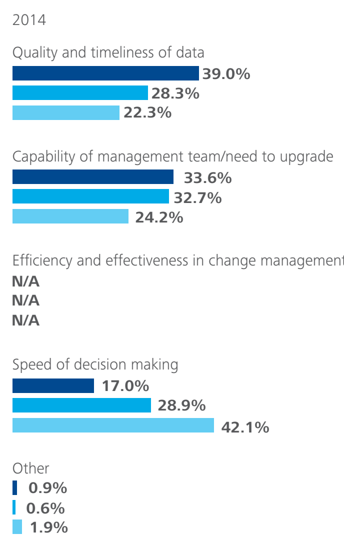
2014



- Very active: **39.4%**
- Somewhat active: **38.4%**
- Neutral: **15.2%**
- Somewhat passive: **4.8%**
- Very passive: **2.1%**

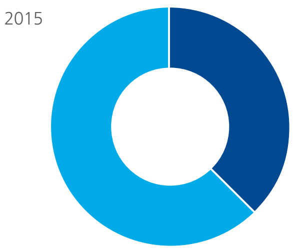
Please rank in order of importance the top 3 concerns of your firm upon the acquisition of a new company. Please type a 1, 2 or 3 next to each of your top concerns (1 = top; 2 = second; 3 = third).



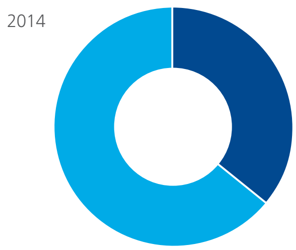


Top
Second
Third

What do you expect to be the primary form of portfolio exits in the market over the next 12 months?

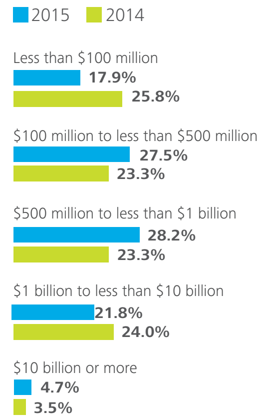


- IPO: **37.7%**
- Strategic sale: **62.3%**

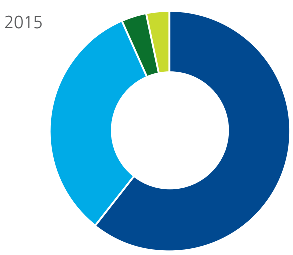


- IPO: **36.1%%**
- Strategic sale: **63.9%**

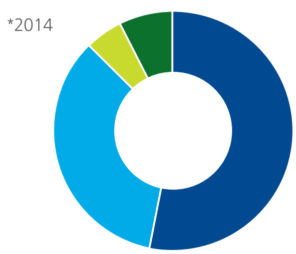
What do you see as the average enterprise value for your firm's acquisitions in the next 12 months?



During the next 12 months, do you expect the average number of deals your firm actively pursues to increase or decrease?



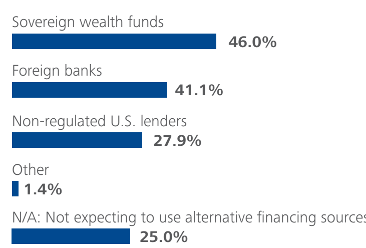
- Increase: **60.6%**
- Little or no change: **32.8%**
- Decrease: **3.4%**
- N/A: Not expecting significant M&A over next few years: **3.2%**



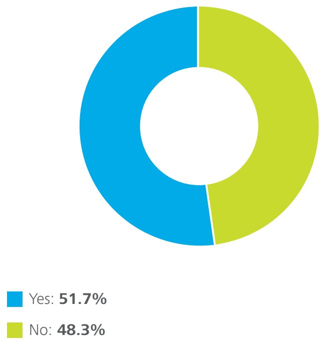
- Increase: **53.3%**
- Little or no change: **34.5%**
- Decrease: **5.0%**
- N/A: Not expecting significant M&A over next few years: **7.3%**

**2014 timeframe = two years*

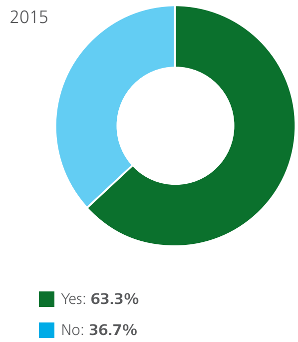
If you expect to use alternative financing sources, which of the following will it most likely be? Please select all that apply

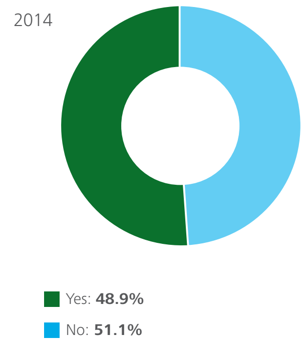


Do you expect the volatility in oil and global markets to impact your ability to close deals?

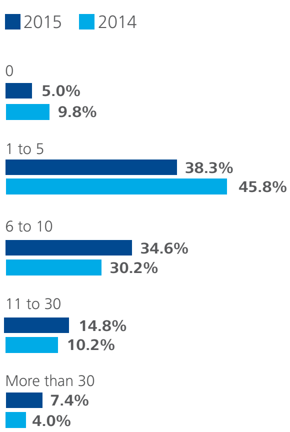


Over the next 12 months, does your firm plan to increase the number of operating partners to enhance portfolio performance?

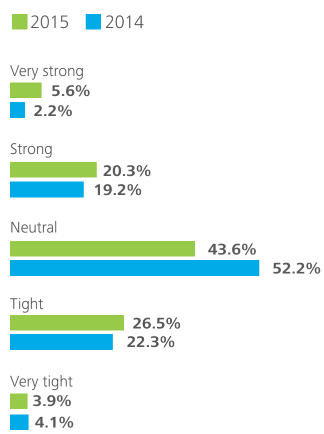




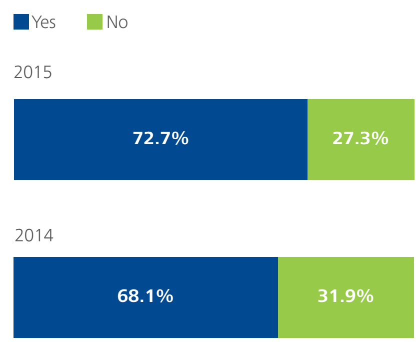
How many add-on acquisitions do you expect across your firm's portfolio over the next 12 months?



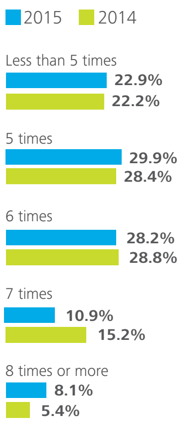
What is your general view of the debt markets for LBOs in the next 12 months?



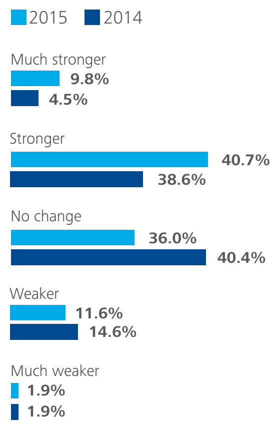
Do you see your firm becoming more industry-focused over the next 12 months?



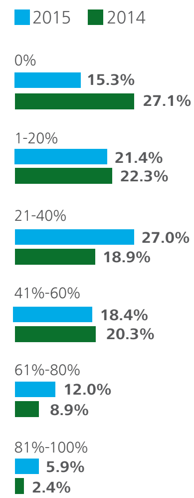
In general, what do you see as the leverage multiples for debt?



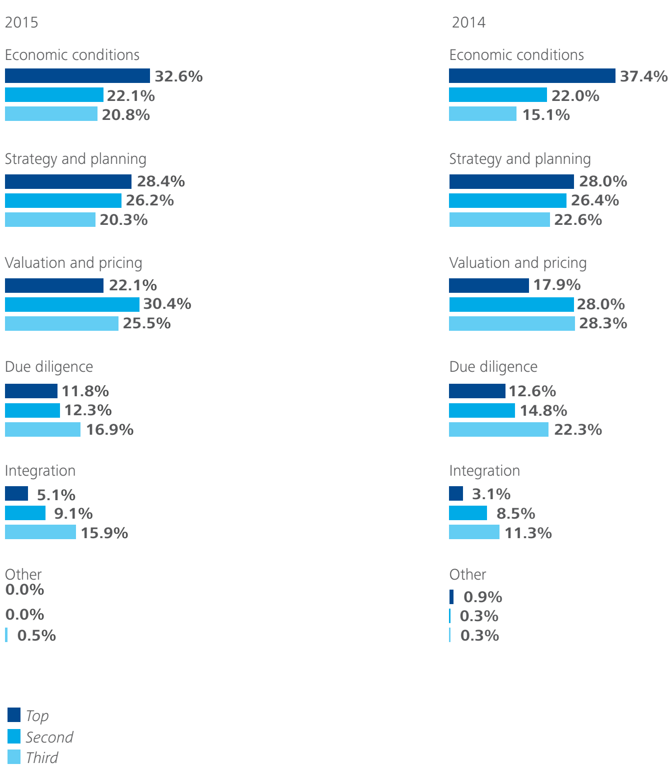
In general, how do you see leverage multiples changing over the coming year?



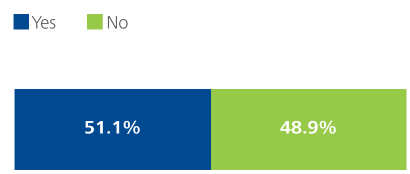
What percentage of your firm's deals involve acquiring companies domiciled in foreign markets?



Please rank in order of importance the top 3 factors for ensuring deal success for your firm.



Do you expect the Fed and OCC restrictions on leveraged debt multiples to impact your ability to finance certain deals?

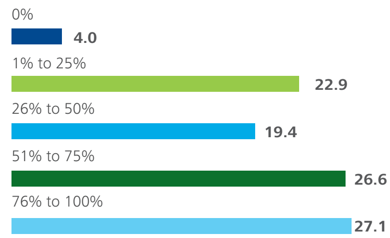


Which foreign markets are you most likely to pursue?

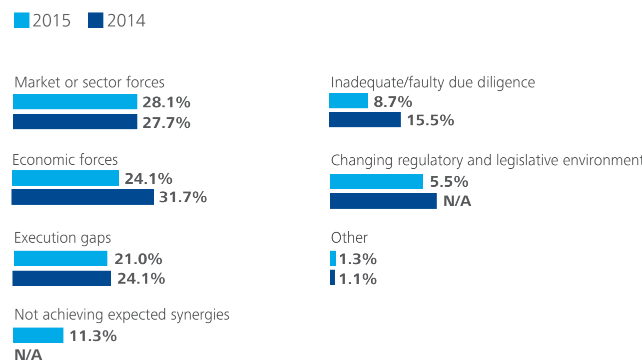
2015	
Canada	32.2%
UK	30.1%
China	27.1%
Japan	22.6%
France	20.8%
Germany	20.5%
Brazil	19.0%
Mexico	18.4%
Italy	15.7%
Singapore	12.0%
India	11.4%
Spain	11.1%
Chile	7.5%
Denmark	7.2%
Taiwan	6.6%
United Arab Emirates	6.6%
Argentina	6.0%
Sweden	6.0%
Costa Rica	5.7%
Ireland	5.7%
Finland	5.4%
Netherlands	5.4%
South Africa	5.4%
South Korea	5.4%
Poland	4.8%
Israel	4.5%
Malaysia	4.5%
North Africa	4.2%
Panama	3.9%
Thailand	3.9%
Norway	3.6%
Peru	3.6%
Saudi Arabia	3.6%
Turkey	3.6%
Colombia	3.3%
Czech Republic	2.7%
Russia	2.7%
Indonesia	2.4%
Qatar	2.4%
Vietnam	2.1%
Other	2.1%
Bahrain	1.5%
Hungary	1.2%
Sub-Saharan (excluding South Africa)	.9%
Uruguay	.9%

2014	
UK	33.5%
China	30.7%
Canada	29.7%
Brazil	24.1%
Japan	17.9%
Mexico	17.5%
India	16.0%
Germany	15.6%
France	13.7%
Italy	10.4%
South Korea	10.4%
Singapore	8.5%
Spain	8.0%
United Arab Emirates	8.0%
Argentina	7.5%
Taiwan	7.5%
Chile	6.6%
South Africa	6.6%
Colombia	6.1%
Ireland	6.1%
Israel	5.2%
Malaysia	5.2%
Denmark	4.7%
Norway	4.7%
Russia	4.2%
Thailand	4.2%
Finland	3.8%
Panama	3.3%
Costa Rica	2.8%
Indonesia	2.8%
Peru	2.8%
Saudi Arabia	2.8%
Czech Republic	2.4%
Sweden	2.4%
Uruguay	2.4%
North Africa	1.9%
Turkey	1.9%
Bahrain	1.4%
Hungary	1.4%
Qatar	1.4%
Vietnam	1.4%
Netherlands	0.9%
Poland	0.9%
Sub-Saharan (excluding South Africa)	0.5%

For transactions your firm has completed within the past 2 years, what percentage has NOT generated their expected value or return on investment?



For those transactions that have NOT generated expected value for your firm, what was the main reason?

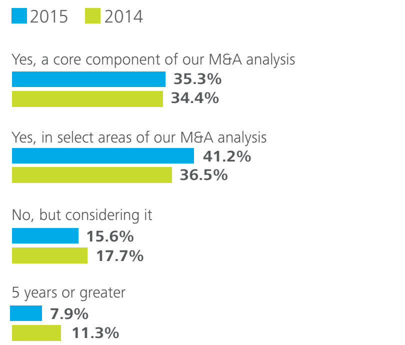


Please rate the following concerns with respect to their importance in achieving a successful M&A transaction for your firm.

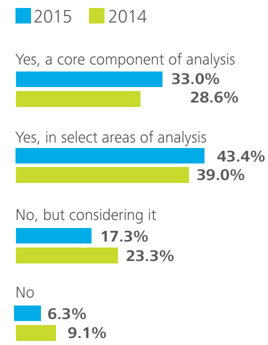
Please rate the following concerns in terms of their importance in accurately valuing a target for your firm.

Please rate the following concerns in terms of their importance with respect to your firm's due diligence process.

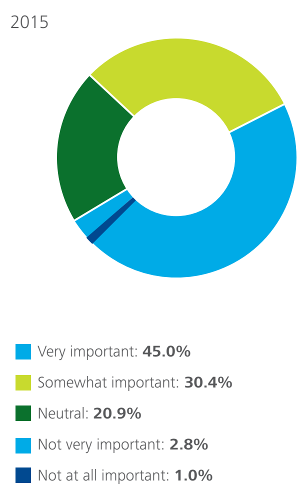
Does your firm deploy technology-driven data analytics in M&A?

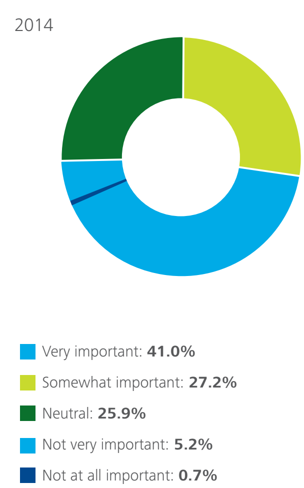


Does your firm deploy technology-driven data analytics in its portfolio companies?

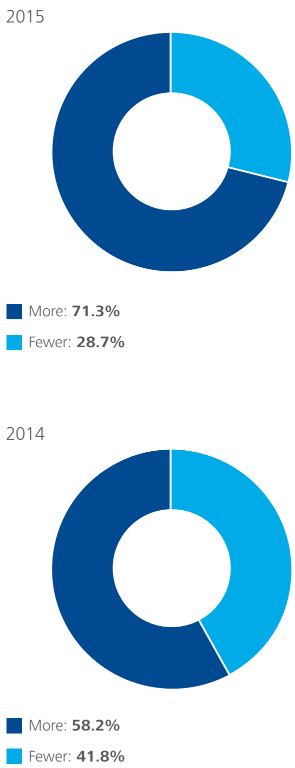


How important are issues of "responsible growth" to your firm over the near-term?

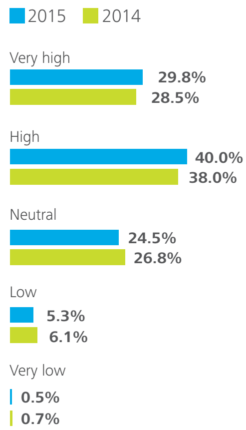




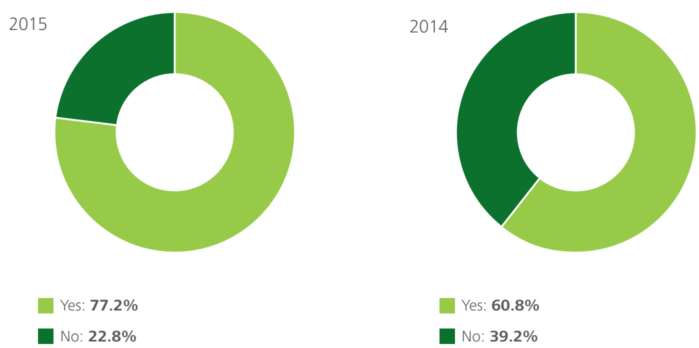
In general, do you expect to see more or fewer club deals in the next 12 months?



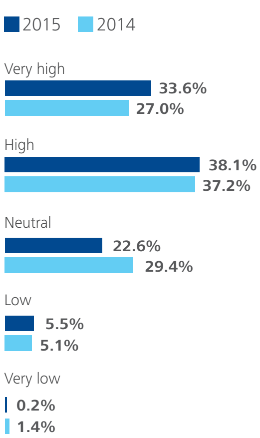
How high of a priority for your firm are privacy and security concerns when considering acquisition targets?



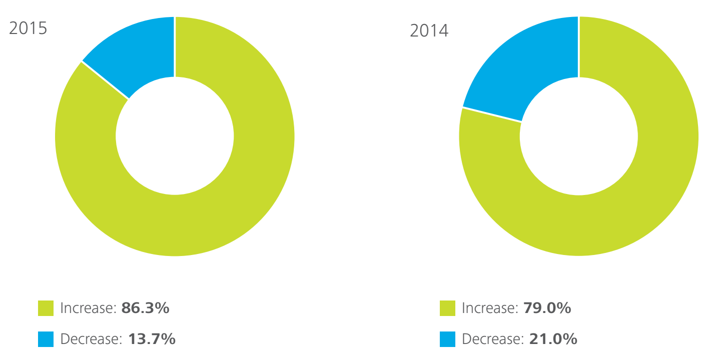
Do you expect your firm to make more growth/minority investments over the next 12 months?



How high of a priority are privacy and security issues within your firm's portfolio companies?

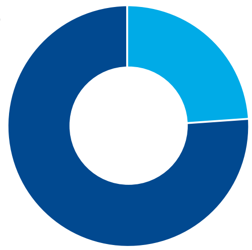


Do you expect the enterprise size of your firm's deals to increase or decrease over the next 12 months?



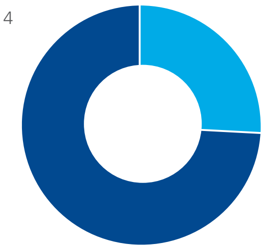
If interest rates increase over the next 12 months, will that have an impact on your firm's potential deals?

2015



- Yes: **75.6%**
- No: **24.4%**

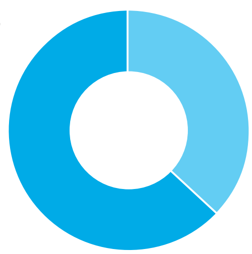
2014



- Yes: **73.5%**
- No: **26.5%**

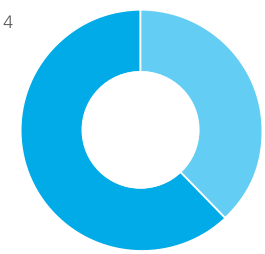
Do you see anti-trust issues being a greater or lesser concern going forward in your firm's investments?

2015



- Greater: **62.2%**
- Lesser: **37.8%**

2014



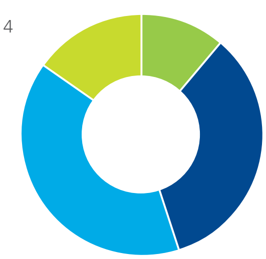
- Greater: **62.3%**
- Lesser: **37.7%**

How much would anti-trust issues hinder or preclude your firm from any potential deal activity?

2015

- Greatly hinder: **12.9%**
- Hinder: **28.2%**
- Neutral: **43.8%**
- No effect: **15.0%**

2014



- Greatly hinder: **11.1%**
- Hinder: **34.1%**
- Neutral: **39.7%**
- No effect: **15.0%**

Contacts

Tom McGee
Vice Chairman
Deloitte LLP
tmcgee@deloitte.com

Trevear Thomas
Principal
Deloitte Consulting LLP
trethomas@deloitte.com

Russell Thomson
Partner
Deloitte & Touche LLP
rthomson@deloitte.com

Mark Garay
Director
Deloitte Tax LLP
mgaray@deloitte.com

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