Dealmaker Optimism Remains in 2019, But Drops After Record Level in 2018

Impact of China Trade Tensions, Political Uncertainty Affect U.S. M&A, Broader Economic Outlook
November 7, 2019

A year after record optimism in the wake of sweeping federal tax reform in the United States, respondents to Dykema's 15th Annual M&A Outlook Survey have tempered expectations for the M&A market, including some notes of pessimism about the broader economy.

Thirty-three percent of respondents are bullish about the U.S. M&A outlook over the next 12 months. That's down from 65 percent in the 2018 survey, which was taken months after the passage of the Tax Cuts and Jobs Act. This year, M&A optimism levels essentially reverted to pre-2018 results.

"Where U.S. M&A activity and the broader economy are headed appears to depend on whom you ask," said Thomas Vaughn, co-leader of Dykema's Mergers & Acquisitions practice. "About one-third of our respondents this year feel bullish, bearish or neutral both on the M&A outlook and the broader economy. That's unusual, but it also means that two-thirds of respondents still believe things will improve or stay the same for M&A activity and for the broader economy."

The survey polled senior executives and advisors across the nation, CEOs, CFOs, owners, managing directors and other professionals involved in M&A activity. Respondents were split on the possibility of an economic downturn, with about half of respondents saying a recession in the next 12 months was at least somewhat likely. Twenty-four percent were neutral, and 27 percent said a recession in that timeframe was unlikely or somewhat unlikely.

"Given all the recession talk in the last few months, the level of pessimism isn't really very high," said Stephen Sayre, co-leader of Dykema's Mergers & Acquisitions practice. "There are clearly concerns about trade tensions with China and U.S. political uncertainty – especially with a presidential election next year – but with consumer confidence still relatively high and the U.S. economy looking fundamentally strong, there's no sense that the sky is falling."

Respondents said trade tensions with China (43 percent) and U.S. political uncertainty (35 percent) were the greatest threats to U.S. M&A activity over the next 12 months. When asked about next year's presidential election, respondents were confident it will have an influence, but were once again split on whether that impact would be positive (36 percent) or negative (38 percent).

The survey yielded a number of interesting findings, including:

- Despite trade issues with China, respondents picked that country as the top destination for U.S. outbound M&A activity. A year ago, the country didn't make the top five, showing the complex nature of U.S./China relations. After China, the top three destinations were Europe, Canada and Japan.
- A plurality of respondents (33 percent) said the main driver of U.S. M&A activity in the next 12 months will be general U.S. economic conditions, displacing availability of capital (24 percent) which had been in the top spot for the past six years.
- Fifty-eight percent of respondents expect an increase in M&A activity involving privately owned businesses in the next 12 months, down from 82 percent in 2018.
- Financial U.S. buyers, as they were in 2018, are expected to be the biggest influencers on U.S. deal valuations. Respondents believe foreign buyers will have greater influence compared with a year ago, perhaps because the U.S. is still a relatively safe bet compared with other countries.
- Respondents predict the following sectors will see the most M&A activity in the next 12 months: 1) Automotive; 2) Healthcare; 3) Energy; 4) Consumer Products; 5) Technology. Healthcare moved up two spots from 2018.

Survey results are being released at Dykema's exclusive annual M&A Outlook events throughout the month in Detroit and Chicago. The full report is available here.

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