# M&A Market Analysis

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## 2012 Middle-Market M&A Outlook

Despite sporadic and intense headwinds during 2011, the global M&A market posted solid results, including deal count reaching an all-time high and dollar volume just below the prior-year level. M&A momentum from 2010 carried through mid-year, with the 13.9% increase in global M&A dollar volume in the first six months of 2011 driven by cash-rich strategics augmenting growth and ready access to credit for financial sponsors. However, the M&A market softened during the late summer after the U.S. debt downgrade and amid heightened worries about the global economy and Europe's debt crisis. In the second half of 2011, global M&A dollar volume dropped 18.8% on a year-over-year basis and was 11.1% below the first-half level. The U.S. posted leading M&A performance in 2011, as dollar volume increased 8.6% on volume growth for billion-dollar-plus deals and the middle market. Based on an uptick for economic indicators and significant improvement in the credit markets toward the end of 2011, market conditions appear ripe for increased M&A activity in 2012.

M&A activity should grow in 2012, as the conditions that supported deal-making in 2011 remain in place. The following are various factors, which are discussed in greater detail in this report, that will shape the M&A environment in 2012:

- **Strategics Seeking Growth.** Conditions are good for an increase in strategic acquisitions in 2012. U.S. corporations have built up immense balance sheet firepower, with more than $2 trillion of aggregate cash currently earning a minimal return. Given the sluggish economic outlook, M&A can be an effective tool for lifting the top line and generating margin improvement through synergies following an extended period of cost controls.

- **Financial Sponsors Ready to Deal.** Private equity activity is poised to build on the upturn of 2010-2011, as financial sponsors entered 2012 prepared to buy and sell assets due to pressure to put committed capital to work and to generate exits. Financial sponsors evaluating platform acquisitions and add-on deals continue to have in excess of $400 billion in uninvested capital that needs to be deployed as well as access to debt at reasonable terms. At the same time, achieving fully valued realizations is a high priority for private equity firms with aging portfolio companies.

- **Slow-growth Economic Environment.** The M&A market should remain active in an anticipated environment of low economic growth, reflecting varied economic trends across geographic markets. In the U.S., signs of steady, albeit modest, economic expansion in recent periods should give M&A participants the conviction needed to execute on planned transactions. Disparities in regional economies should drive growth for cross-border deals, as occurred in 2011.

**Robust Credit Markets.** After stabilizing in late 2011, the credit markets appear poised to provide sufficient liquidity for M&A financings in 2012. The leveraged loan and high yield markets should be accommodating for new deals, as these asset classes are an attractive alternative to historically low interest rates on U.S. government debt, especially with speculative-grade defaults expected to rise only modestly from low levels in 2012.

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