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A Thought About M&A Activity in 2003

Starting in 1993 and continuing through the peak Bubble Years of 1998-2000, there was an enormous increase in the volume of M&A activity in the U.S. and worldwide. Global M&A activity in 2000 was \$3.37 trillion. U.S. M&A activity in 2000 was \$1.77 trillion. M&A volume in 2001 was about half of what it was in 2000 and in 2002 it is again down by about half from 2001. As we enter 2003 there is but a trickle of potential deals in the M&A pipeline.

As a result, there have been major layoffs of M&A bankers and other M&A professionals. A significant part of the elaborate, interconnected and interdependent M&A infrastructure of the banks, law firms, accounting firms, management consultants and corporate acquisition planning departments has been dismantled. It would take several years to rebuild this infrastructure to the level needed for 2000 M&A volume.

The abject failure of the technology, media and telcom acquisitions of the 1990s and the collapse of serial acquirors like WorldCom and Tyco have thrown acquisitions into disrepute in the markets and in the boardrooms of potential acquirors. As long as the market will punish the shares of companies that make major acquisitions and as long as boards of directors are not receptive to major acquisitions, they will be few and far between. Managements that are faced with the current geopolitical and global economic problems and struggling to make budgets, have little interest in acquisitions.

Although stock prices are down, financing is available, significant synergies can be achieved and the regulatory and legal climate is benign, until general business conditions improve and confidence is restored it is most unlikely that M&A activity will be greater in 2003 than in 2002.

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