December 27, 2004

M&A in 2005

Will there be a sharp increase in M&A activity in 2005?

Will there be a resurgence of hostile takeovers in 2005?

Will private equity play an even greater role in acquisition activity in 2005?

I think yes is the answer to all three questions.

The recent increase in M&A activity reflects a return to confidence in the economy and to accommodation to the new accounting and corporate governance requirements. The usual drivers of M&A activity: gaining economies of scale, new research, new technology, new products, new geographic markets and cost reductions through elimination of over capacity will continue to drive it in 2005. So, too, will the receptivity of the financial markets, the "bargains" for non-US acquirors created by the "cheap" dollar and the strong balance sheets enjoyed by potential acquirors.

The increase in the power of institutional and activist shareholders has been manifested in the dismantling of takeover defenses by many companies during the past two years. This, combined with the threat of a proxy fight to remove a board of directors that rejects a takeover bid, will encourage aggressive acquirors to make use of "bear-hugs" and hostile tender offers.

The successful private equity firms are raising ever larger funds. Currently, several in the $8 to $10 billion range are being discussed. This, together with the larger firms forming "clubs" to do multibillion dollar deals, will enable more and larger private equity deals.

Yes, it appears that there will be an M&A boom in 2005.

Martin Lipton