Global Forum on International Investment

CROSS-BORDER M&A ON THE RISE

Recovery or a warning of another FDI crash?

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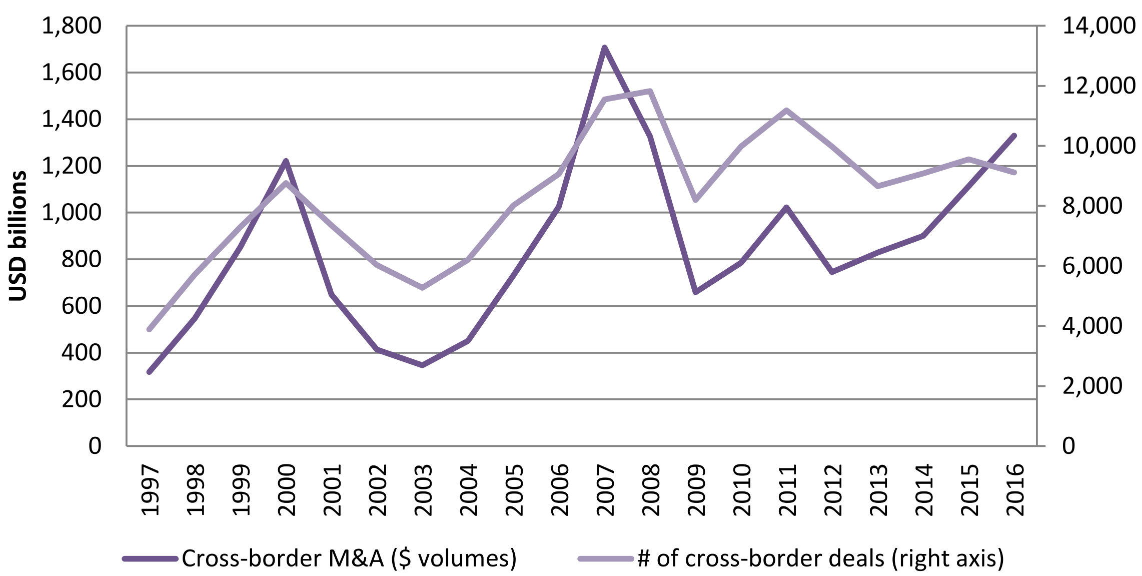
Cross-border mergers and acquisitions were up by 20% in value terms in 2016, marking a second year of double-digit growth (figure 1). This marks three years of annual growth in global M&A since cross-border M&A last declined in 2012.

Figure 1. Global cross-border M&A, values and number of deals

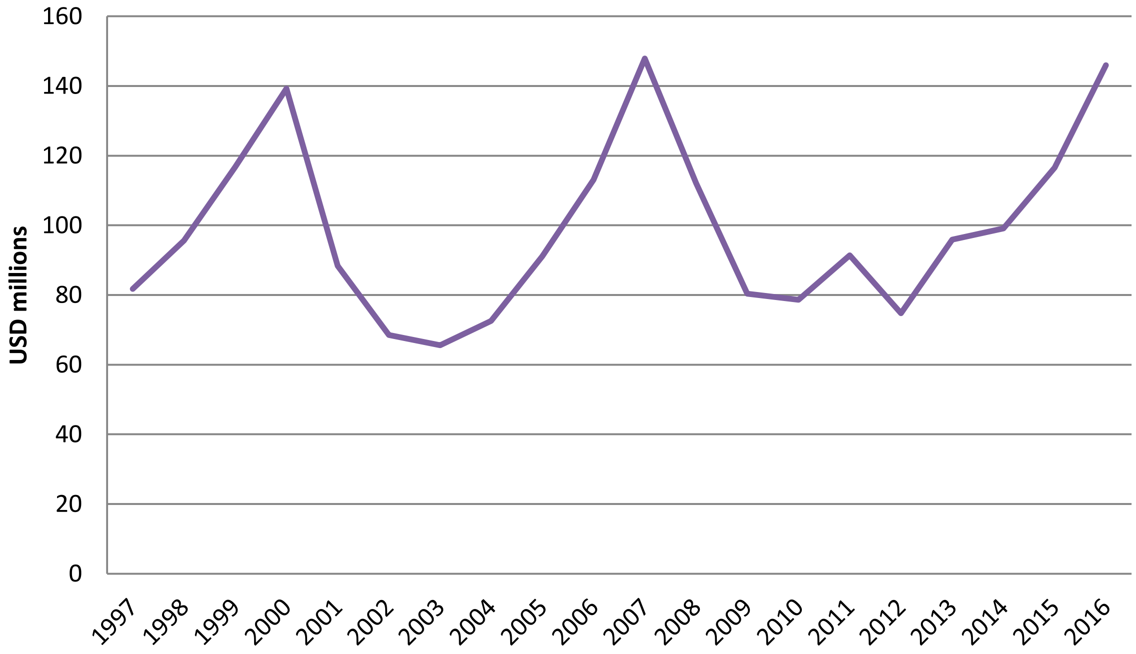


This growth has been broad in its regional coverage. In Europe, 2016 volumes were up 30% in 2016 over 2015 (from USD 517 billion to USD 665 billion), and almost double levels in 2014 (USD 374 billion). In North America inward cross-border M&A was up 22% over 2015 (from USD 345 billion to USD 419 billion). The biggest relative gains were in Japan (a doubling from USD 12 billion to USD 24 billion) and in the Indian subcontinent (a 50% increase from USD 12 billion to USD 18 billion.

Yet, just as the global value of cross-border M&A has been increasing, the number of cross-border deals has stagnated and even declined by 5% in 2016 (figure 1). This combination of increasing volumes and decreasing deal numbers is reflected in a significant increase in average deal values from USD 177 million in 2015 to USD 146 million in 2016, the second highest level on record (figure 2).

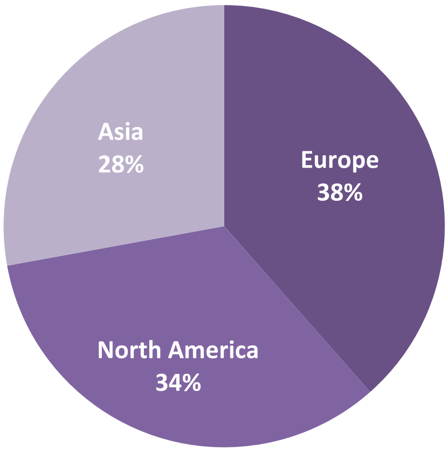
The only years in which average deal values have reached such levels were in 2000 and 2007, the two previous FDI booms that preceded the two major FDI recessions in 2001 and 2008. This highlights a key feature of the FDI boom and bust cycles over the past several decades: increases in FDI flows have been due in part to the impact of asset bubbles on the valuation of cross-border M&A activity, an important component of FDI.

Figure 2. Average global value of cross-border M&A deals



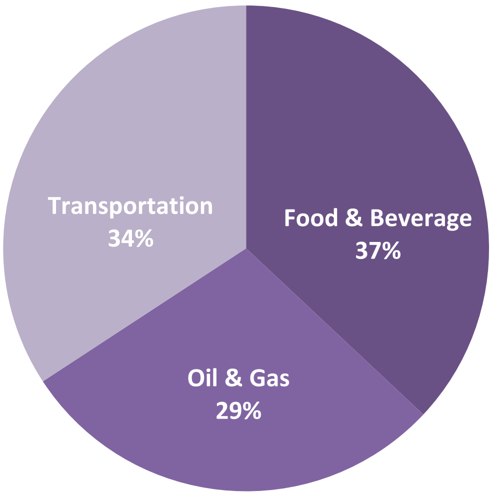
The regions that have accounted for the biggest increases in average cross-border M&A deal values are also those that receive the most cross-border M&A: Europe, North America, and Asia. Figure 3 shows the increase in average deal size in 2016 over the average for the five-year period 2012-2016. This shows that the increase in deal sizes observed in figure 1 has been broad based from a geographic perspective.

Figure 3. Top 3 regions for increased deal sizes in 2016 (compared with previous 5-year average)



In terms of industry patterns, the three leading sectors in 2016 were food and beverage, transportation, and oil and gas (again measured by comparing growth in average deal sizes between 2016 and the average over the previous 5 years) (figure 4). Unlike previous boom and bust cycles, the financial sector has not contributed to the increase in deal sizes, actually shrinking by 19% in 2016 compared with the previous 5-year average.

Figure 4. Top three sectors for increased deal sizes



Cross-border deal valuations have been an important feature of past FDI cycles. Currently, average deal values have reached similar levels leading up to previous 'FDI recessions'. While it is difficult to extrapolate from past experience, it remains that quantitative easing and the industry restructurings that followed the global financial crisis beginning in 2008 have clearly given rise to a surge in cross-border M&A deal values, even as overall cross border flows have remained below the previous peak of 2007. Also noteworthy has been the fact that cross-border deal numbers have actually declined by 5% in 2016, a signal that real cross-border business linkages are slowing down.

This note derives from on-going research in the Investment Division related to the activities of MNEs in the global economy, cross-border disinvestment, and cross-border M&A.

OECD Global Forum on International Investment

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