



# M&A SLACK

## WARNINGS SIGNS

February 2017



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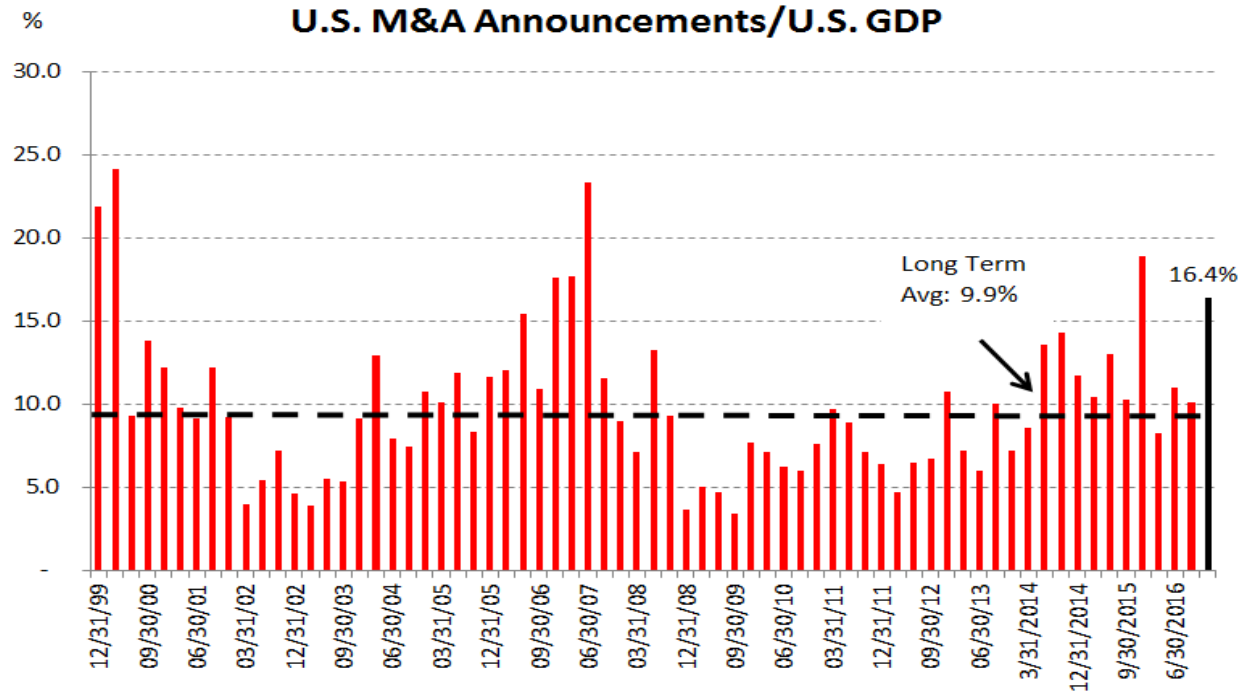
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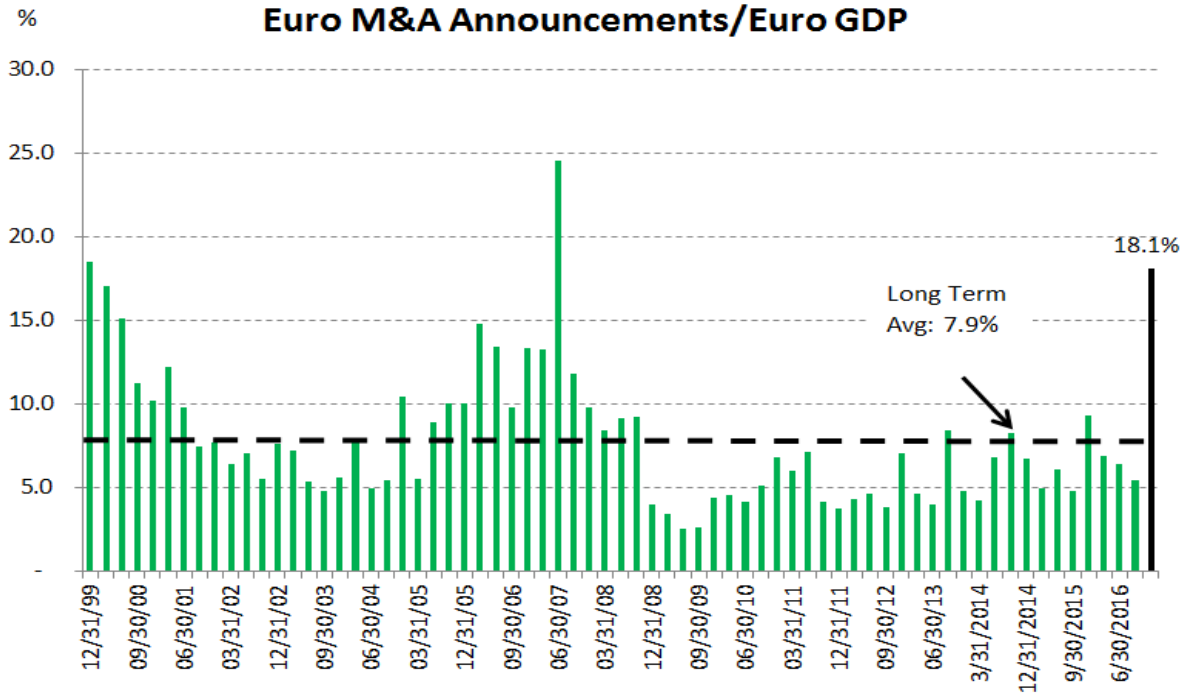
# A DEPRESSED MARKET IS NOT SO NOW



## DEPRESSED ACTIVITY LEVELS THROUGH 2013 HAVE RECOVERED

Announced M&A activity spent 2009-2013 well below long term means of GDP but have recovered to near peak levels of high teens to finish 2016

# A DEPRESSED MARKET IS NOT SO NOW

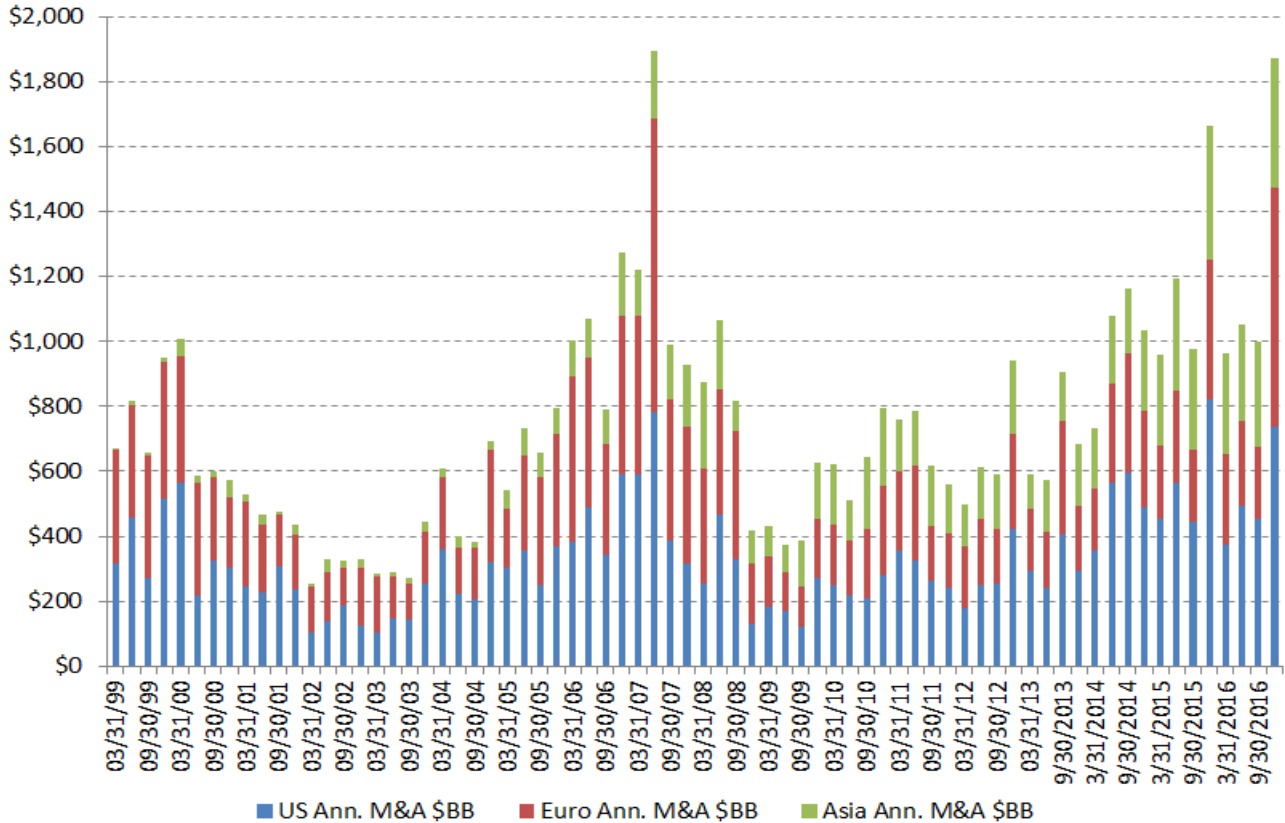


## EUROPEAN ACTIVITY HAS ALSO IMPROVED MARKEDLY

The important Euro-zone has also moved off of depressed levels making comps into 2017 much tougher

# ACROSS CYCLE PICTURE IS FROTHY

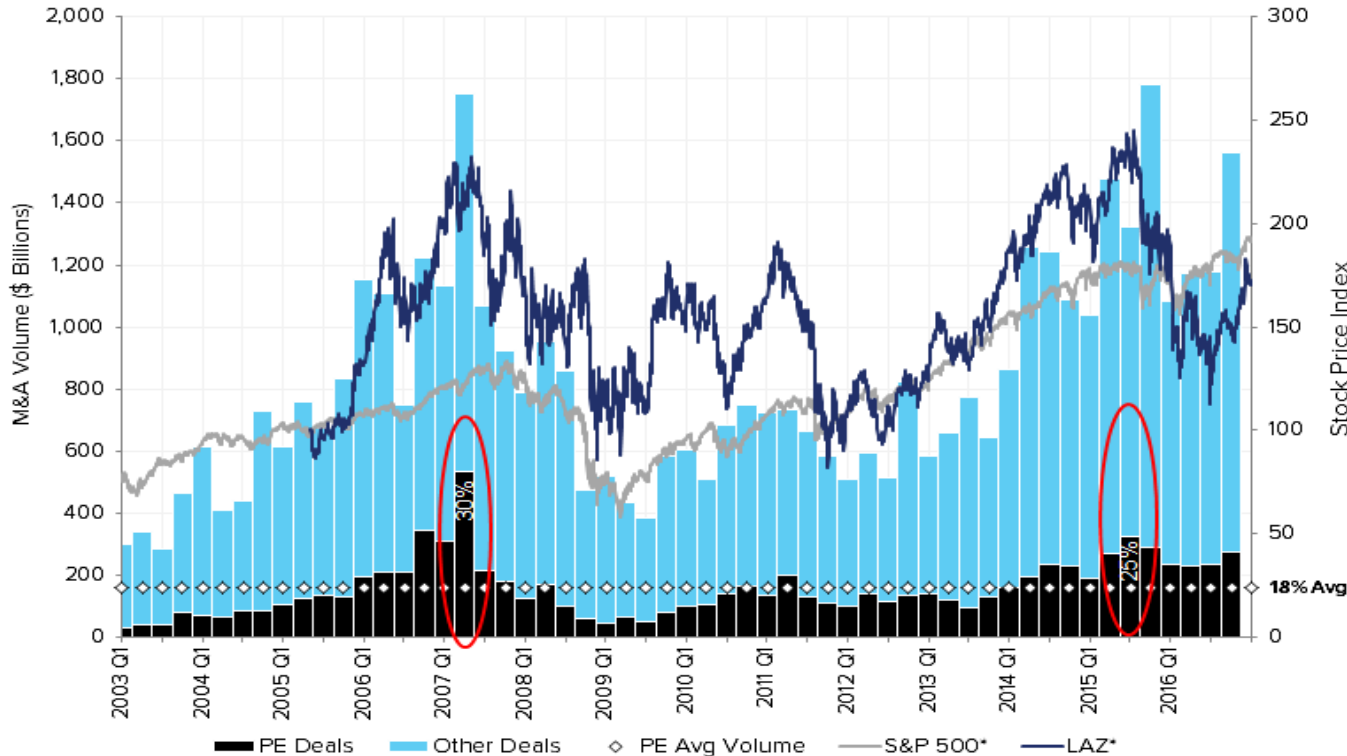
## Global Geographic Announcements by Region



With a **meaningful** rebound in US and European activity, Global M&A is again **near peak (full)** levels.

# PRIVATE EQUITY MARKED THE TOP

## QUARTERLY M&A VOLUME

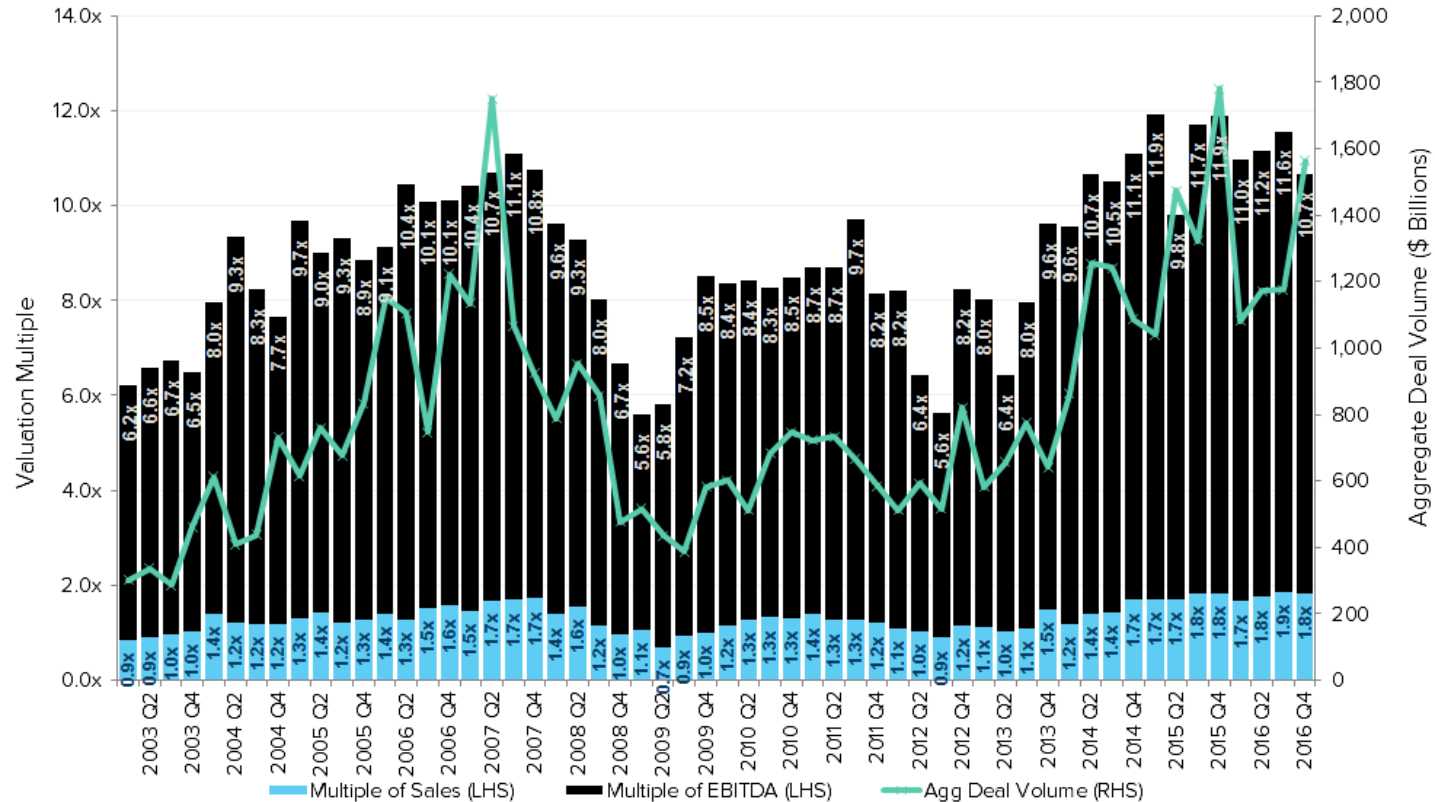


As it always does, **Private Equity** marked the top of the 'market in 2007 and 2015. PE deal percentages within M&A have fallen from extreme levels but are still **above average** flashing warning.

\*Indexed to 100 on 5/5/05  
Source: Bloomberg, Factset

# ALL TIME HIGHS IN CONSIDERATION

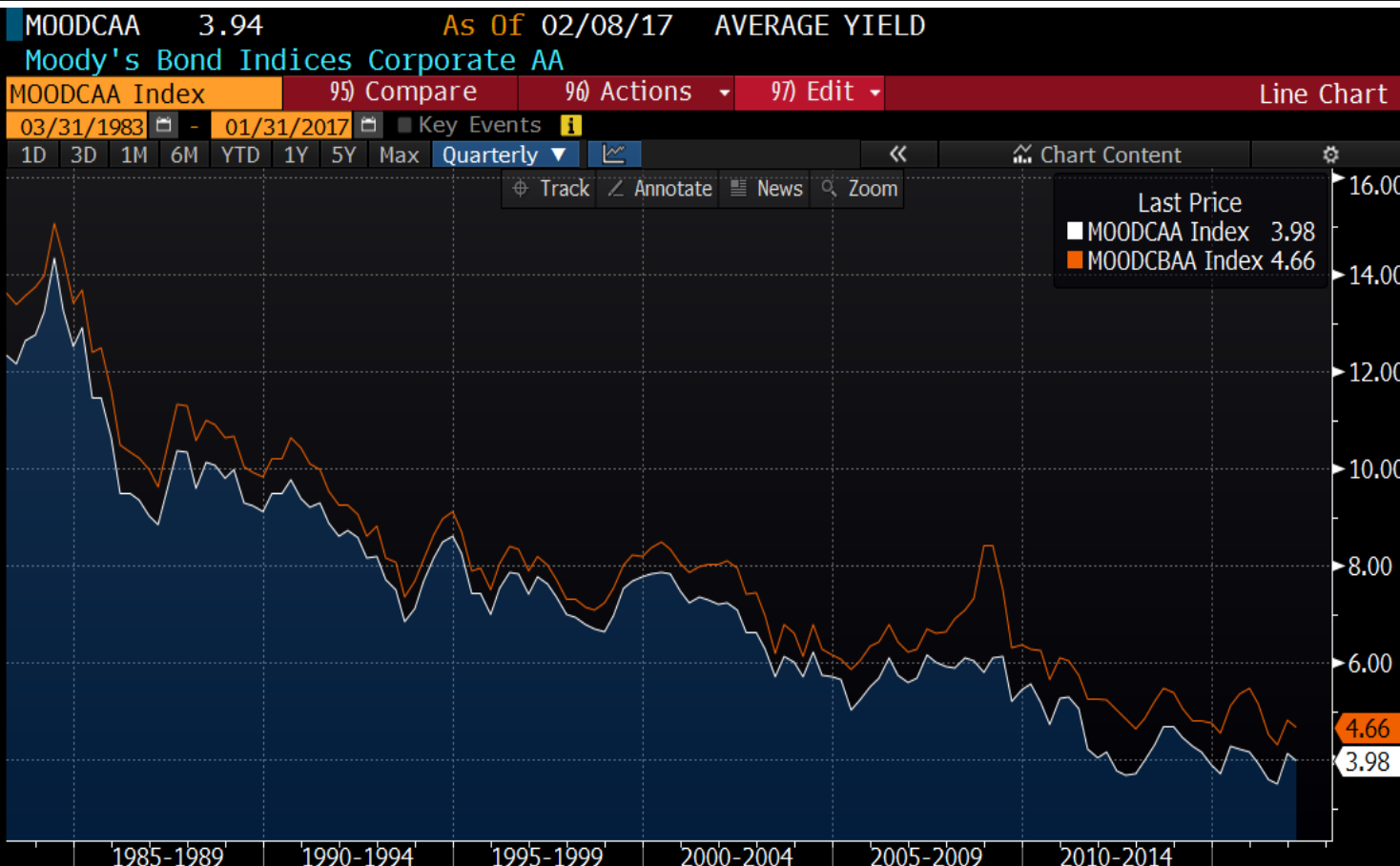
## MEDIAN DEAL VALUATION MULTIPLES



Consideration values are off of **all-time highs** which is **good** however remain **elevated** which mean buyers are still reaching to complete transactions



# WHILE BORROWING COSTS ARE LOW



Borrowing costs are still **historically low** with both tranches of corporate credit indices still not having markedly broken their **down trend**

# BUT CREDIT COSTS ARE INFLECTING



## Rate of change matters

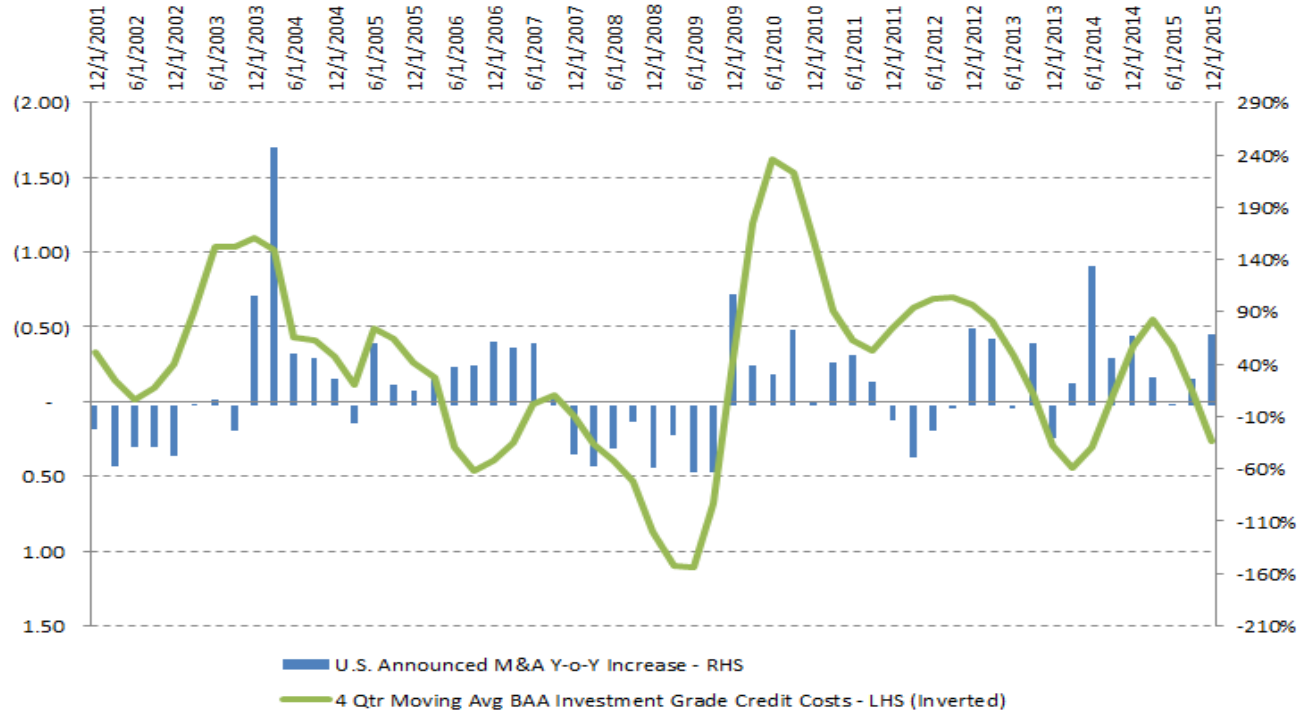
however and costs have been **rising** since the Trump election upset. Corporate credit costs stopped their descent early in 2016 and have **risen steadily** to start 2017

# BUT CREDIT COSTS ARE INFLECTING



Which is important because in **past rate hiking cycles**, corporate credit spreads over Treasury have **risen** by between **20 and 2,000** basis points.

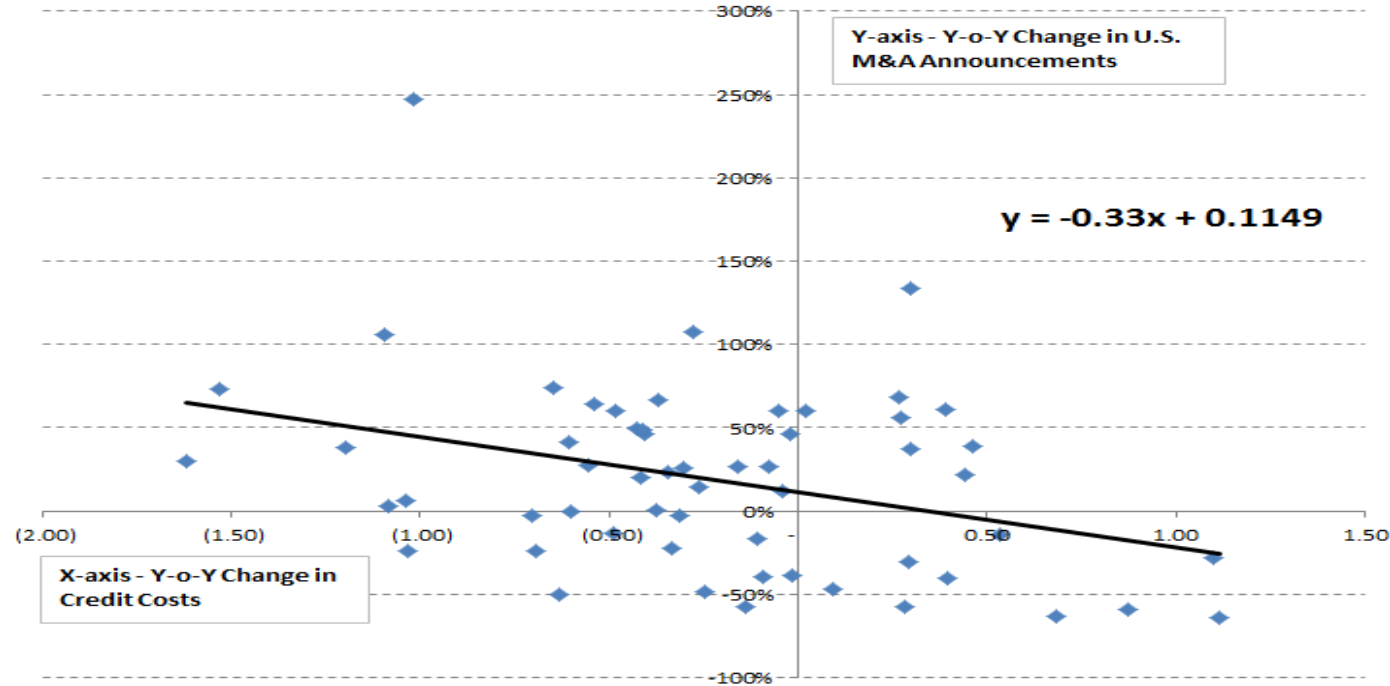
# AND Y-O-Y CHG IN CREDIT DRIVES M&A



## ON THE MARGIN MORE EXPENSIVE CREDIT CREATES NEGATIVE M&A COMPS

Across cycle, when credit costs rise year-over-year (green line on an inverted scale), U.S. M&A comps decline and go negative

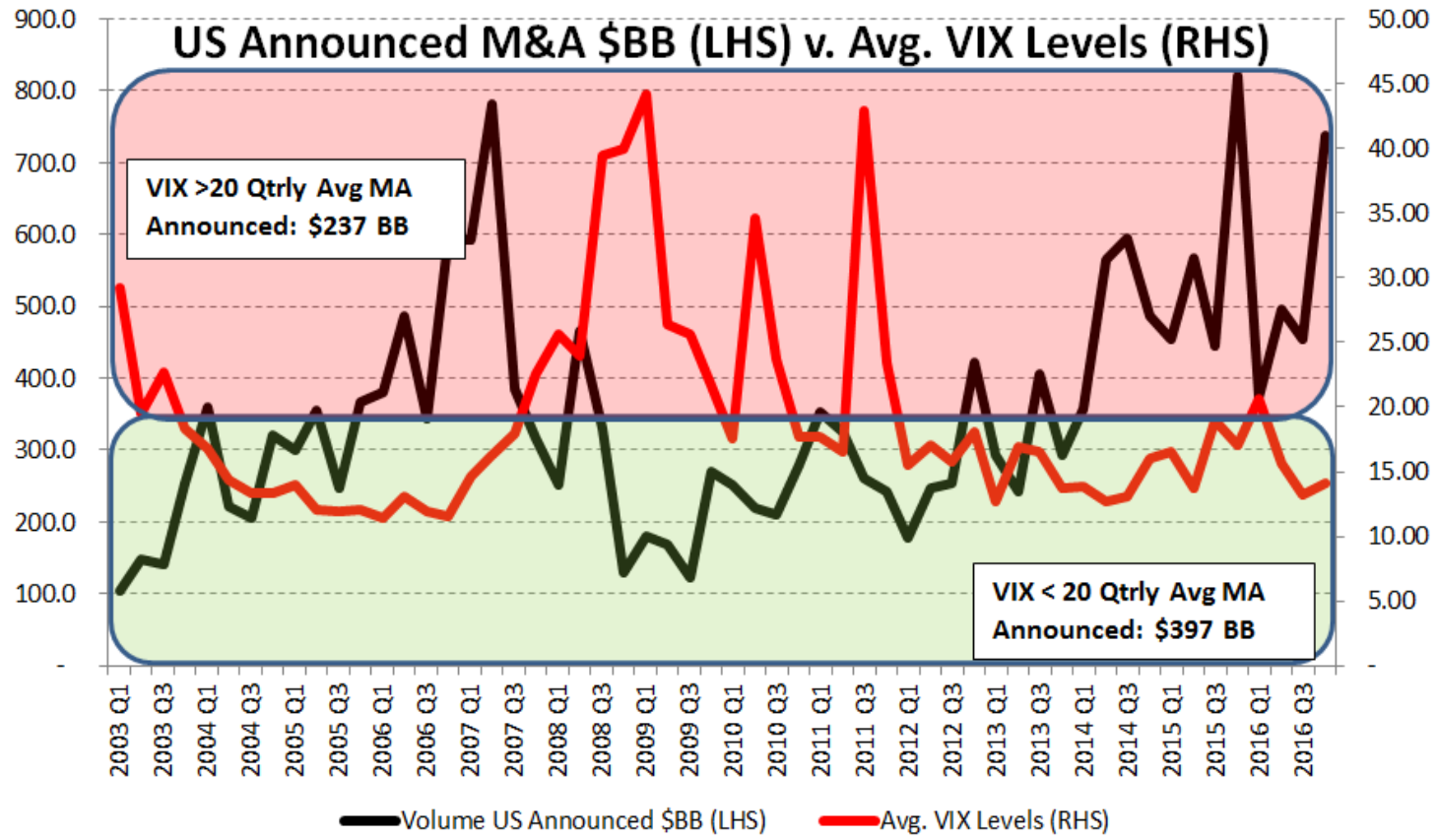
# EVERY +100 BPS IN COSTS = -20% IN M&A



**EVERY +100 BPS INCREASE IN CREDIT COSTS DECREASES M&A Y-O-Y BY -20%**

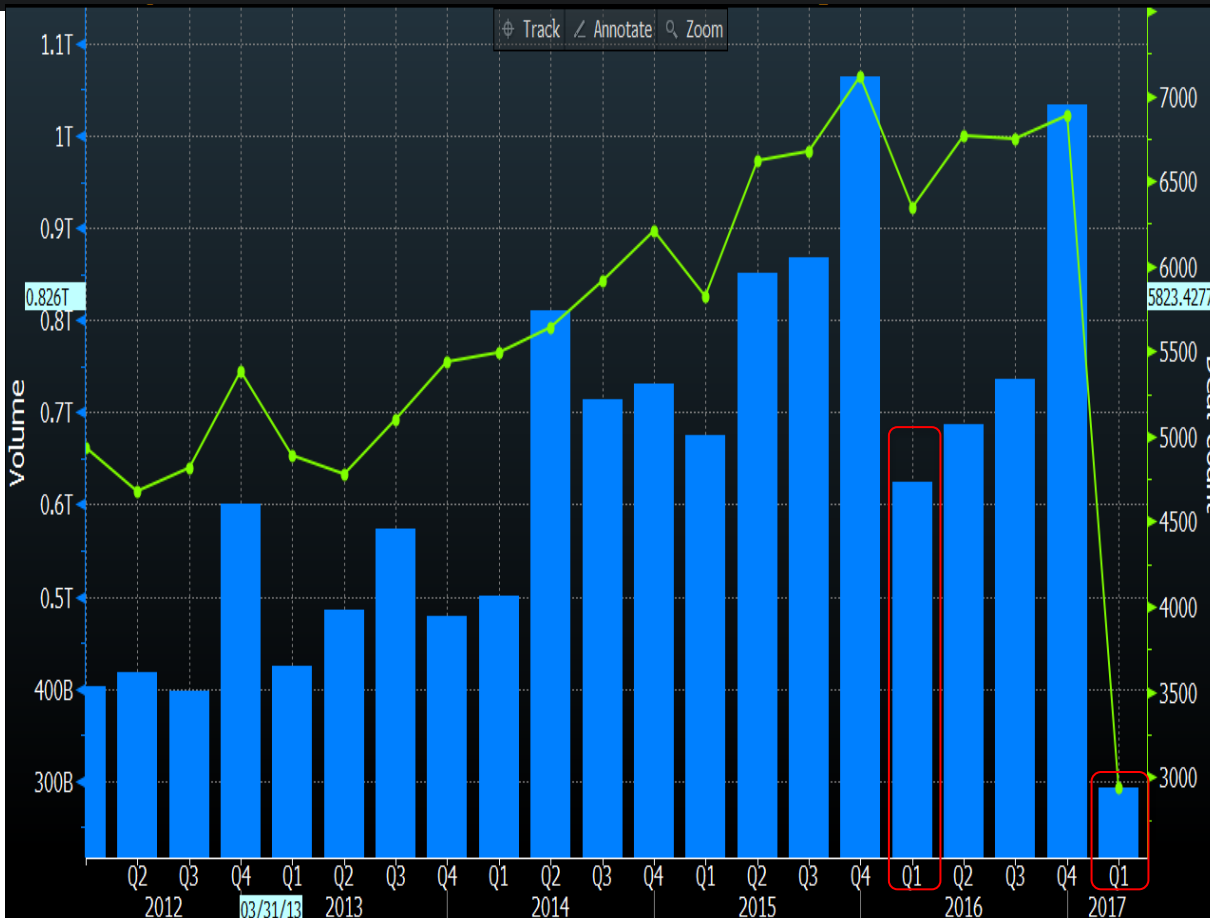
Looking at U.S. credit and U.S. M&A announcements, every 100 basis point increase in credit costs translates into an average negative comp of -20% for U.S. M&A activity

# VIX LEVELS GREATLY DICTATE ACTIVITY



The 20 level of the VIX is the **fulcrum point**. Quarterly U.S. M&A activity averages **~\$400 billion per quarter** with VIX below 20 and just over **\$230 billion** when the VIX is above 20

# GLOBAL M&A HAS STARTED SLOWLY



## Geographic Breakdown

Target Region	Value↑	YoY(%)
All	292.7B	-9.9 ↓
21) North America	142.4B	-16.9 ↓
22) Europe	103.6B	12.6 ↑
23) Asia Pacific	41.4B	-15.8 ↓
24) LATAM & Caribbean	3.2B	-57.8 ↓
25) Middle East & Africa	2.7B	-51.2 ↓

# AND DEAL SIZE HAS COME DOWN A LOT

2016

Announce Date	Target Name	Acquirer Name	Announced Total Value (mil.) ↑
02/03/2016	Syngenta AG	China National ...	46,311.73
01/11/2016	Baxalta Inc	Shire PLC	35,563.40
01/25/2016	Johnson Con...	Johnson Contro...	28,667.27
02/09/2016	ITC Holdings...	Fortis Inc/Canada	11,057.07
02/10/2016	Meda AB	Mylan NV	9,974.78
02/01/2016	Alere Inc	Abbott Laborato...	8,039.92
01/19/2016	Waste Conne...	Waste Connecti...	7,815.11
01/26/2016	Leidos Innov...	Leidos Holdings...	6,038.23
02/01/2016	Dominion Qu...	Dominion Reso...	5,965.44
01/15/2016	Appliances b...	Qingdao Haier C...	5,600.00

Avg: \$15,000

2017

Announce Date	Target Name	Acquirer Name	Announced Total Value (mil.) ↑
01/26/2017	Actelion Ltd	Johnson & Johnson	29,762.19
02/10/2017	Mead John...	Reckitt Benckise...	17,809.81
02/01/2017	ONEOK Part...	ONEOK Inc	17,378.16
01/16/2017	Luxottica G...	Essilor Internati...	16,608.75
01/19/2017	Zodiac Aer...	Safran SA	10,233.97
01/16/2017	Luxottica G...	Essilor Internati...	9,507.64
01/09/2017	VCA Inc	Mars Inc	8,793.13
01/25/2017	WGL Holdin...	AltaGas Ltd	6,289.42
01/17/2017	Unnamed T...	Exxon Mobil Corp	5,600.00
01/09/2017	ARIAD Phar...	Takeda Pharmac...	4,899.08

Avg: \$12,000



# RATE SENSITIVITY IS NOT COMPELLING

## Correlation to the 10-Year Treasury Yield (2007 - Present)

	Avg R Value		Median R Value
1 Mortgage Insurers	0.54	Mortgage Insurers	0.54
2 Financial Guaranty	0.37	Midcap Banks	0.39
3 Midcap Banks	0.27	I-Banks/Boutiques	0.35
4 I-Banks/Boutiques	0.21	Financial Guaranty	0.33
5 E-Brokers	0.20	Mortgage Finance	0.28
6 Mortgage Finance	0.18	E-Brokers	0.11
7 Small Cap Banks	0.05	Small Cap Banks	(0.01)
8 Large Cap Banks	0.05	Alternative AMs	(0.01)
9 Homebuilders	0.03	Homebuilders	(0.05)
10 Life Insurers	0.00	Large Cap Banks	(0.09)
11 Alternative AMs	(0.01)	Life Insurers	(0.12)
12 Traditional AMs	(0.03)	Traditional AMs	(0.18)
13 Debt Collectors	(0.14)	CRE Brokers	(0.27)
14 CRE Brokers	(0.25)	Title Insurers	(0.30)
15 Exchanges	(0.27)	Exchanges	(0.38)
16 Auto Insurers	(0.27)	Building Products	(0.41)
17 P&C Insurers	(0.28)	Fin Services	(0.42)
18 Title Insurers	(0.30)	P&C Insurers	(0.42)
19 Consumer Finance	(0.33)	Auto Insurers	(0.45)
20 Building Products	(0.33)	Cards/Payments	(0.49)
21 Cards/Payments	(0.38)	Debt Collectors	(0.49)
22 Fin Services	(0.41)	Consumer Finance	(0.50)
23 Apartment REITs	(0.46)	Reinsurers	(0.51)
24 Insurance Brokers	(0.50)	Fin Tech	(0.52)
25 Fin Tech	(0.52)	Insurance Brokers	(0.56)
26 Reinsurers	(0.53)	Home Centers	(0.57)
27 Home Centers	(0.57)	Apartment REITs	(0.57)

### I Banks/Boutiques

COWN	0.81
GHL	0.70
MS	0.69
GS	0.41
PJC	0.35
LAZ	0.26
SF	(0.42)
EVR	(0.43)
RJF	(0.50)

Everyone is checking their **rate exposure** and **ibanks/boutiques** have **less than half** the rate beta of Mortgage Insurers. Importantly LAZ stock has the **lowest** positive coefficient of the group at 0.26.

FOR MORE INFORMATION, CONTACT US AT:

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