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## The structure and dynamics of the world market of mergers and acquisitions

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### Abstract

Mergers and Acquisitions (M&A) belong to the area of corporate finance and thus play an essential role in the management of companies. Undoubtedly, today we live in a time of significant economic changes. In the process of integration, companies expand their capabilities and develop strategies for diversification and restructuring. M&A is a difficult process leading to an increase in the concentration of production and, as a rule, an increase in production efficiency in large companies. However, this process often leads to the emergence of monopolies, and, consequently, to a less efficient use of production resources and other negative consequences than under conditions of perfect competition. The real competition in world markets, which is primarily mono-or oligopolistic, pushes the M&A process, which is a promising way of creating conditions for domestic companies to maintain national markets and for Russian companies to enter international markets. In certain situations, M&A transactions are necessary for companies to adapt for the changing environment. Mergers and acquisitions deals have become common business tools, implemented by thousands of companies in world. The article presents the analysis of the current world market of mergers and acquisitions, the determinants of M&A dynamics and prospects of development. Thus, the relevance of the topic is determined by the presence of economic uncertainty in modern markets, which leads many companies for an integration. The article presents the analysis of the global market for mergers and acquisitions in general, as well as a review of industry structures.

### For citation

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### Keywords

Mergers & acquisitions, world market, quantitative analysis, sector analysis, economics.

## Introduction

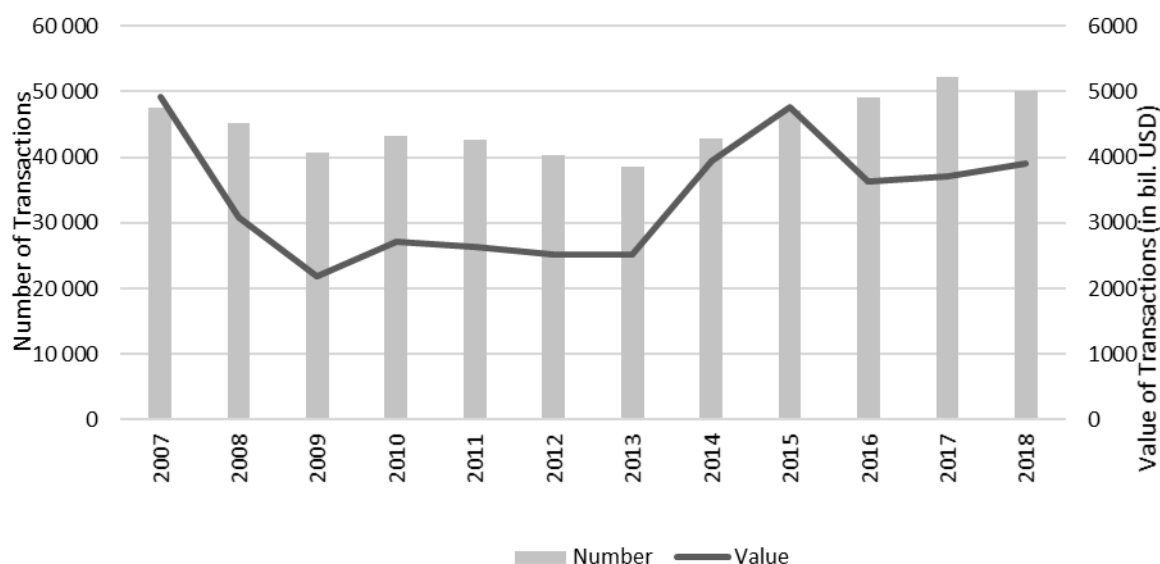
The M&A market is a very dynamic market, but at the same time it is quite dependent on current economic trends. This is due to the fact that merger deals are a way of expanding business, and the possibility of expanding a business directly depends on the growth rate of the economy.

The condition and main trends of the M&A market will be investigated in three dimensions: quantitative analysis, analysis from a regional perspective, and finally, industry analysis.

## Main part

### *Quantitative analysis*

If we analyze the activity of M&A deals in terms of time, we can clearly see that the volume of this market really correlates with the level of economic activity.



Source: Bloomberg

**Bar chart 1 – Volume of M&A worldwide 2007-2018**

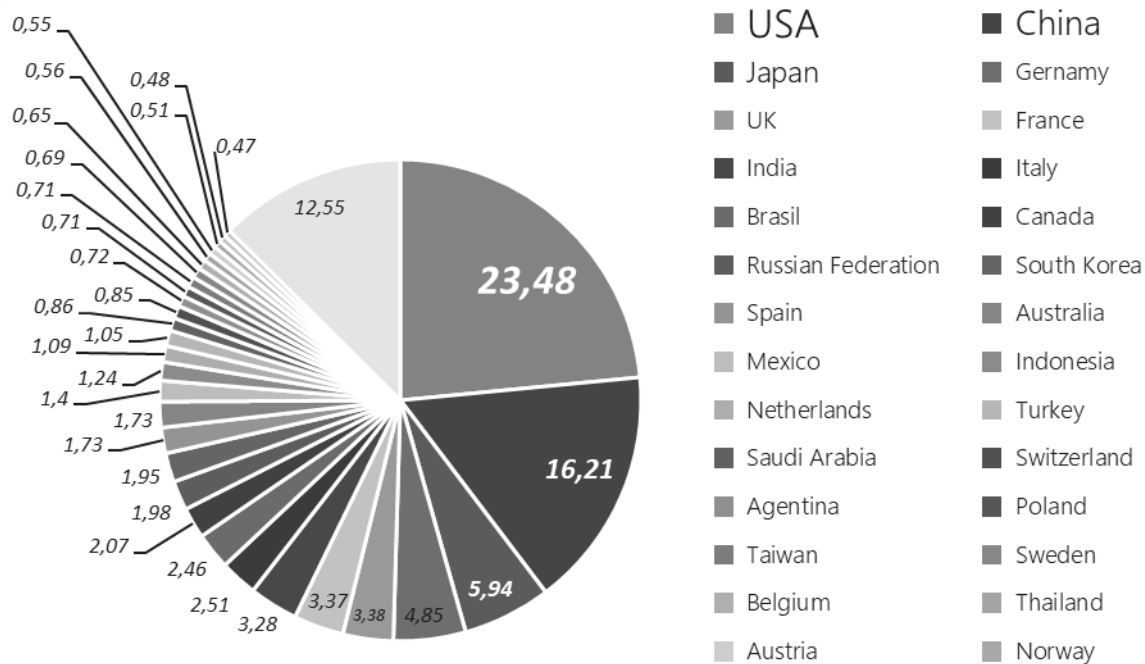
It is obvious that year of 2007 was the top of the M&A market development. That year was marked by the peak of world economic growth, followed by the global financial crisis in 2008–2009, as a result of which the market fell by 22%. Since 2010, the market volume began gradually recover in volume, having increased by 75% over five years, as of 2015, but was never able to achieve the 2007 figure. It should be noted that the volume of the mergers and acquisitions market very clearly shows the complex economic situation in the world, for example, the slowdown in growth in 2013 was marked by the lack of growth in the total volume of transactions.

If we analyze the M&A market by the number of transactions, we can observe a similar trend. However, over the last three years of 2016-2018, the quantity outpace the volume of transactions.

At this stage, it can be concluded that one of the trends in the market for mergers and acquisitions is dependence on economic growth rates.

Mathematically this can be proved as follows: since the US economy has been the dominant

economy in the world for more than 23%<sup>1</sup> of global GDP over the last decades, and has a significant impact on the economy of any country, and the US M&A market represents more than 40%<sup>2</sup> of the total market. Consequently, a correlation analysis between the indicator of the American financial market and the size of the M&A market can demonstrate how the M&A market is affected by the economic situation and investor's mood. The S&P 500 index is taken as an indicator of the financial market. The following pie chart 1 shows shares of countries in the world GDP in 2018.



Source: IMF

**Pie chart 1 – The shares of countries in the world GDP in 2018**

The table 1 proves the thesis of the M&A market correlation with the S&P 500 index, the correlation coefficient is 58% that indicates a strong level of dependence, and the correlation of growth rates 73%, which also indicates a strong dependence.

**Table 1 – Global M&A Market Correlation with S&P 500 Index**

Year	S&P 500 (X)	Growth rate	Volume of M&A in billion USD (Y)	Growth rate of the volume
2007	1 478		4 920	
2008	1 215	-18%	3 075	-37%
2009	949	-22%	2 187	-29%
2010	1 131	19%	2 719	24%
2011	1 281	13%	2 639	-3%
2012	1 387	8%	2 517	-5%

<sup>1</sup> Website of IMF. URL: <https://www.imf.org/en/Data>

<sup>2</sup> The statistics portal. URL: <https://www.statista.com/statistics/267369/volume-of-mergers-and-acquisitions-worldwide/>

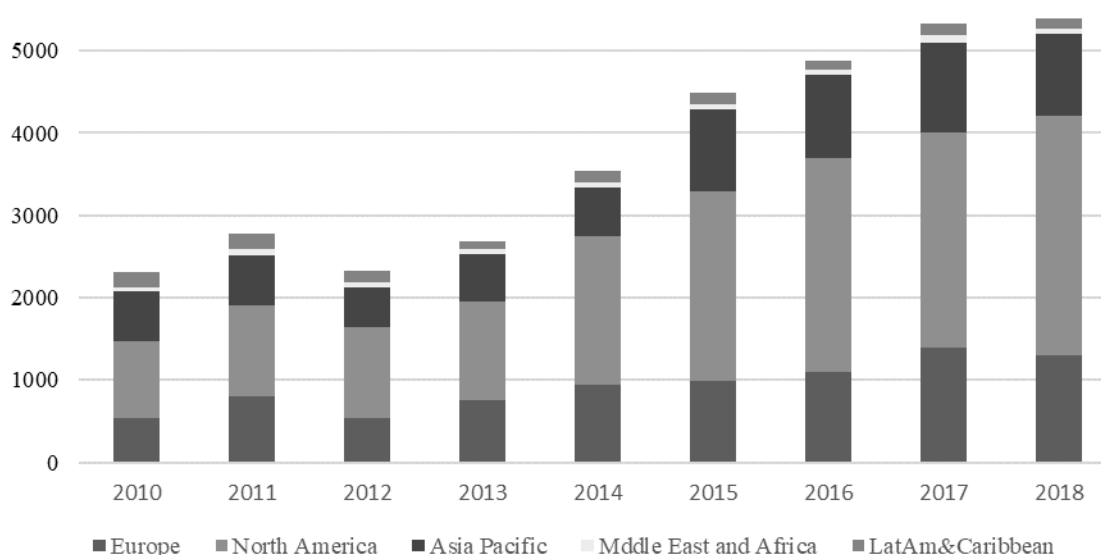
Year	S&P 500 (X)	Growth rate	Volume of M&A in billion USD (Y)	Growth rate of the volume
2013	1 652	19%	2 523	0%
2014	1 944	18%	3 953	57%
2015	2 052	6%	4 765	21%
2016	2 106	3%	3 640	-24%
2017	2 465	17%	3 716	2%
2018	2 738	11%	3 896	5%

Correlation (X, Y)	58%
Correlation of growth	73%

Source: author's research according to the data of S&P500, Bloomberg

### *Geographical analysis*

The market of mergers and acquisitions is highly segmented by region. As already mentioned, the most activity is observed in the North American region, and this is not surprising, since the American economy is the most powerful, large-scale and has an aggressive economy strategy in the world to date. In general, the regional distribution of the M&A market is as follows:

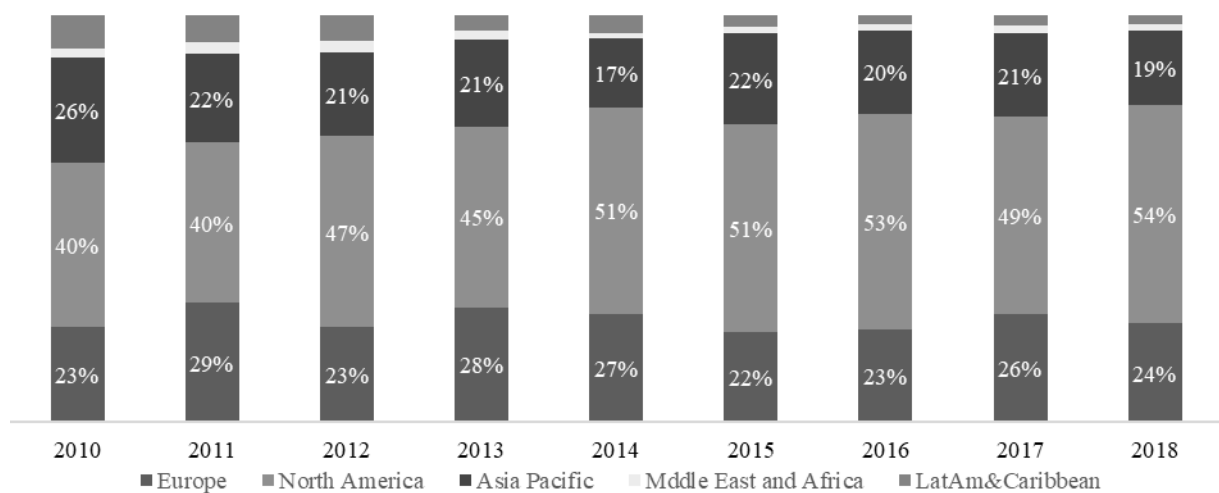


Source: Bloomberg

**Bar chart 2 – Global M&A Market Volume by region  
2010-2018 (completed deals in billion USD)**

Based on this graph, designed according to the data from Bloomberg laboratory, countries of North America, especially United States, Europe, and Asia Pacific are primarily the driving force of this market and the M&A market of these countries is the most volatile. Regions like Africa, Middle East are the most stable.

Analyzing the share ratios between countries, it can be concluded that more than  $\frac{2}{3}$  of the entire M&A market is occupied by the markets of the United States and Europe. The percentages are shown in the following diagram (bar chart 3):

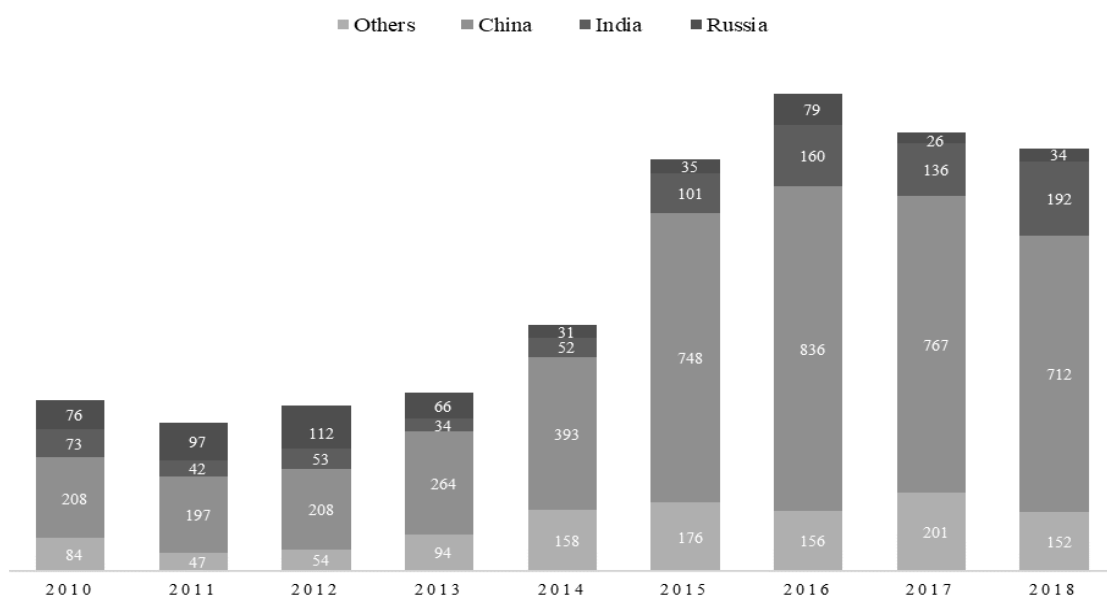


Source: Bloomberg

**Bar chart 3 – Global M&A market volume in regional proportion 2010-2018**

According to the information provided, it can be noted, that for many years the dominant position of the North America (United States) and Europe has remained, but despite this, their relative share is unstable from year to year. For example, since 2010, the share of these two regions has increased by 10%. Despite the current dominance, these countries are gradually giving way to rapidly developing economies, many of which are located in the Asia-Pacific region.

In this regard, it is advisable to analyze the market of mergers and acquisitions in terms of regions of growing economies. The diagram below (bar chart 4) shows the growth rate of the M&A market for countries with developing economies, including Russia.

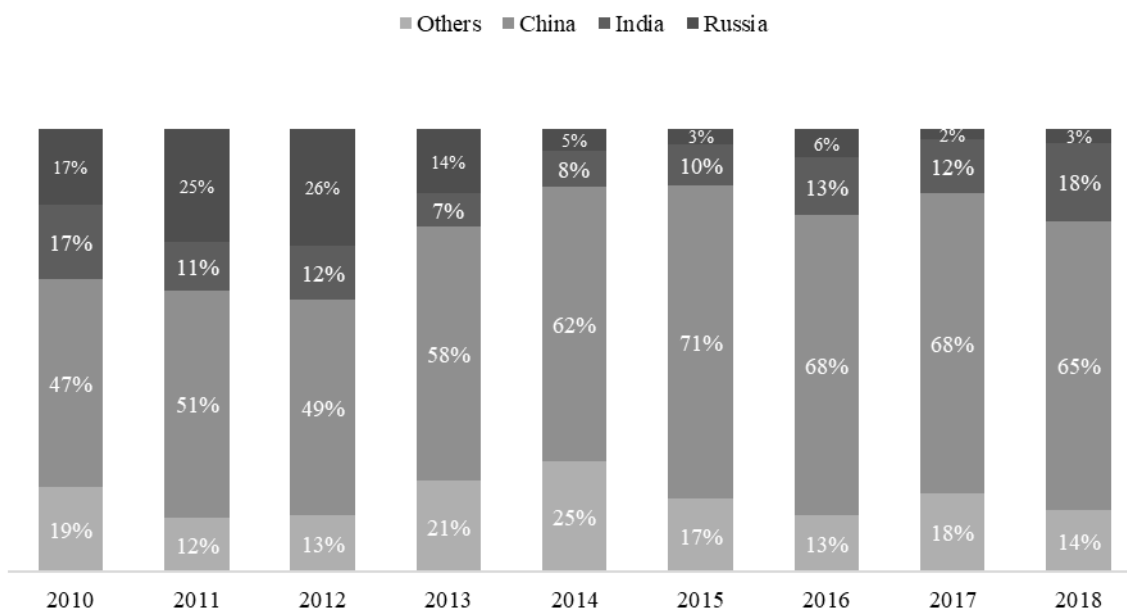


Source: Bloomberg

**Bar chart 4 – M&A market volume of developing countries 2010-2018, in billion USD**

A rather remarkable conclusion can be made from the above information: indeed, developing countries demonstrate growth that is more aggressive and development of the mergers and acquisitions market than countries of Europe and the North America, which, all other things, once again confirms the thesis about the dependence of the M & A market on economic growth rates. This is indicated by the fact that the growth shown in 2010-2014 after the crisis was more intense - 88 % versus 53% of the world.

In the regional context, the percentage ratio for the market of mergers and acquisitions of developing countries is as follows (bar chart 5):



**Bar chart 5 – M&A market of emerging countries 2010-2018, value in percentage**

According to the information provided, it is worth emphasizing the decrease in the share of Russia in the M & A market of developing countries (this aspect will be discussed in detail in the next paragraph), as well as the increase in the market share of China.

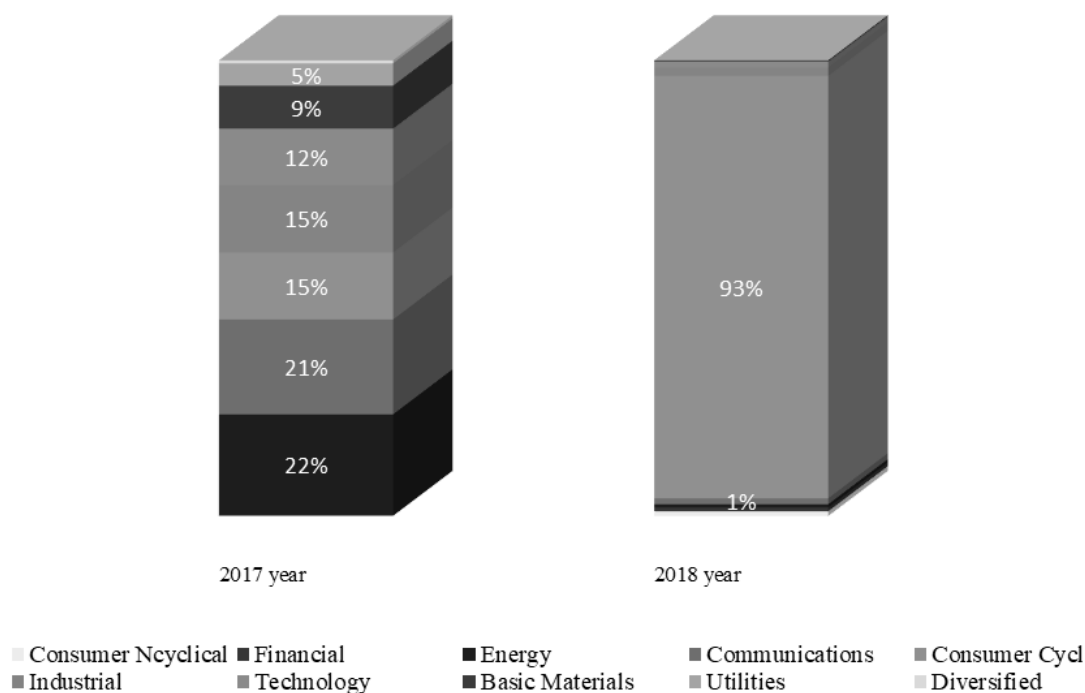
#### *Sector analysis*

The third approach is to analyze the market in accordance with the various sectors in which transactions take place. The most popular sector for M&A transactions as of 2018 is a consumer cyclical (retail, auto manufacturers) - 93%, whereas an energy (oil & gas, pipelines) of 22% and communications (media, telecommunications, advertising) sectors of 21% was leaders in 2017. A more detailed breakdown is presented in the following diagram:

Based on the above data, it is worth noting a significant increase in the consumer cyclical sector in 2018 compared with 2017 – by 78%, as well as a fairly strong decrease in the share of the energy, communications, and technology sectors. This seems to be a rather positive trend, as it indicates the growth of the cyclical<sup>3</sup> sector, which means a period of high activity and high profits, because

<sup>3</sup> Cambridge Business English Dictionary. Cyclical industry. URL: <https://dictionary.cambridge.org/ru/cyclical-industry>

performance is tied to the overall economy. Thus, when the economy is grows quickly, the industry does well and vice versa.



Source: Bloomberg

**Bar chart 6 – Global M&A market in sector activity proportion, 2017-2018**

Exploring the economies of emerging countries for the distribution of M&A volume by sector activity, it can be noted that the most dominant sectors are the financial – 19%, the industrial – 14%, and the consumer noncyclical – 13%. The detailed industry distribution is shown in the following diagram:

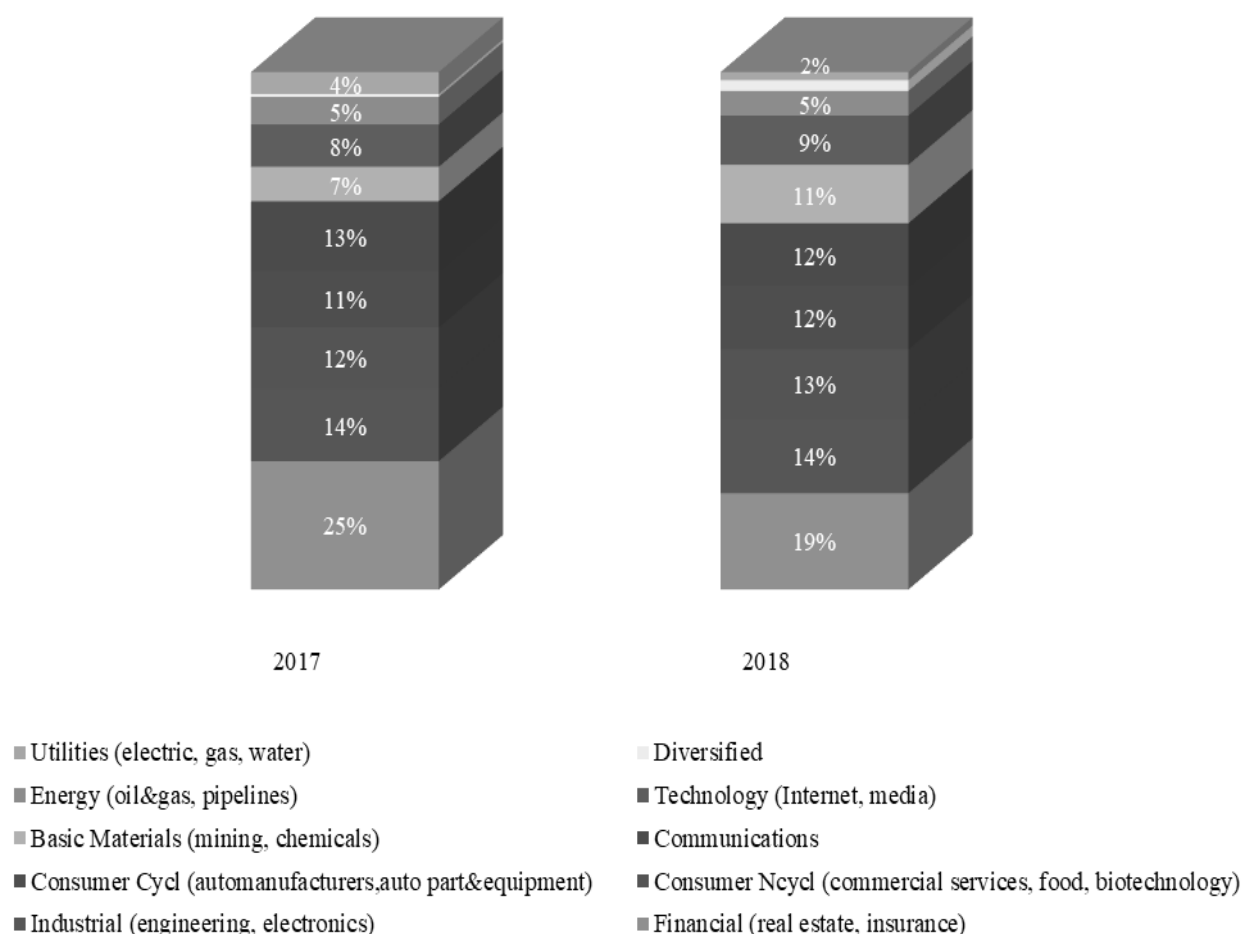
Taking into account the information provided, it is impossible not to emphasize that in the developing countries the financial sector, especially real estate still dominates. Basically, this result is due to the large number of bankruptcies of developers. However the growth of the telecommunications sector indicates an emerging trend towards the development of high technologies.

### **Conclusion. Perspectives for 2019**

Looking forward, we continue to expect demand for good assets and companies to remain very high – whether it's large corporates with significant cash or private-equity money seeking transactions. The abundance of private equity 'dry powder' sitting idly on the sidelines cannot persist indefinitely. M&A players are actively bidding up valuations even as companies are trading at historically high multiples. The makeup of M&A continues to evolve as ongoing demand for technology and telecommunication companies continues to be a key driver of deal volume.

Every sector is on the hunt for technology firms and new capabilities, while deal values tend to be smaller. According to a survey conducted by J.P. Morgan, one of the trend that is expected to continue

throughout 2019 is the blurring of line between sectors and companies willing to move outside of what has traditionally been the sector that they have been known to play in (cross-sector transactions). This particularly in retail and technology deals like Amazon Whole Foods or Nestle Blue Bottle, Unilever buying Dollar Shave Club. These are types of transactions that one would not have even put on a piece of paper years ago, but now is almost necessary for companies like that to survive going forward.



Source: Bloomberg

### Bar chart 7 – M&A market in developing countries in sector activity proportion

The international practice of M&A deals demonstrates that the market for mergers and acquisitions is an extremely dynamic market, highly dependent on the current economic situation and showing a high correlation with the dynamics of the financial market as a whole. The dominant players in the market are the USA and Europe, despite a reduction of their share in the total volume of transactions. It is also important to note that emerging markets generally demonstrate more dynamic development and higher growth. According to industry analysis, the most active sectors in the global M&A market is consumer cyclical.

The international practice of M&A deals demonstrates that the market for mergers and acquisitions is an extremely dynamic market, strongly dependent on the current economic situation and showing a high correlation with the dynamics of the financial market as a whole.



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## Структура и динамика мирового рынка слияний и поглощений

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### Аннотация

Слияния и поглощения (сокращенно: СиП) относятся к области корпоративных финансов и поэтому играют важную роль в менеджменте компаний. Несомненно, мы живем во времена значительных экономических изменений. В процессе интеграции компании расширяют свои возможности и разрабатывают стратегии диверсификации и реструктуризации и в определенных ситуациях сделки М&А необходимы компаниям для адаптации к изменяющимся условиям. СиП это довольно трудный процесс, ведущий к росту концентрации производства и, как правило, повышению эффективности производства в крупных компаниях. Вместе с тем, данный процесс нередко приводит к появлению монополий, а, следовательно, к менее эффективному, чем в условиях совершенной конкуренции, использованию производственных ресурсов и другим негативным последствиям. Реально существующая на мировых рынках конкуренция, которая по преимуществу является моно- или олигополистической, подталкивает процесс М&А, который является перспективным путем формирования условий для сохранения за отечественными компаниями национальных рынков и выхода российских компаний на международные рынки. Сделки по слияниям и поглощениям стали распространенными инструментами бизнеса, реализуемыми тысячами компаний в мире. В статье представлен анализ современного мирового рынка слияний и поглощений, детерминанты динамики М&А и перспективы развития. Таким образом, актуальность темы определяется наличием экономической неопределенности на современных рынках, что приводит многие компании к

интеграции. В статье представлен анализ мирового рынка слияний и поглощений в целом, а также анализ структуры отрасли.

#### **Для цитирования в научных исследованиях**

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#### **Ключевые слова**

Слияния и поглощения, мировой рынок, количественный анализ, отраслевой анализ, экономика.

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