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The power of globalization will continue to propel M&A growth

Nearly a year has passed since the British voted to leave the EU. That big surprise was rapidly followed by another one - the election of Donald Trump as President of the United States.

These elections showed us that many voters, in both the US and the UK, believe that globalization – and the free trade and immigration that comes with it – have had a negative influence on their lives.

The march of protectionism has continued. While Marine Le Pen was not victorious in France, she championed the views of a vocal nationalist movement there. And polls relating to the elections coming up in Germany suggest that the allure of populist sentiment cannot be entirely ignored in Germany.

Against this backdrop, it is easy to fall into the trap of thinking that the rise of populism and growth of nationalism have somehow brought an end to globalization. Globalization, however, remains as strong as ever. And, just as globalization has been a predominant driver of M&A activity during the last 20 years, I'm convinced that continued globalization will spur global M&A in 2017 and beyond. In fact, global M&A activity during the first few months of 2017 was some of the strongest on record.

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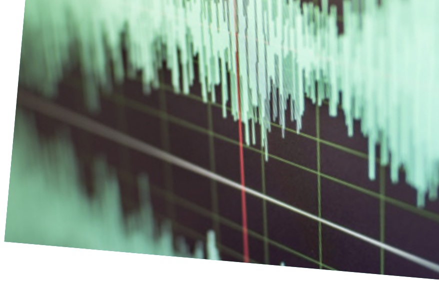

As reported by Dealogic, global M&A had reached over $705 billion through the first quarter of 2017 – the first time that volume has surpassed $700 billion since 2007. This increase was driven by $317.6 billion in cross-border transactions.

Why am I so convinced that this activity will continue? Because the technological and economic innovations driving globalization are now deeply rooted, to the extent that countervailing political headwinds are simply not strong enough to stop the continued advance of globalization.

The billions of people who have benefitted from globalization are not about to regress into the false positives of nationalism. Lives have been changed for the better through improved communications, mobility, healthcare and education. These are incredibly powerful factors.

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To extol the virtues of globalization does not seek to minimize the impact of the invocation of Article 50 in the UK or plans to expand the border wall between the US and Mexico. These are momentous decisions.

These types of nationalist inclinations have emboldened regulators and competitive review mechanisms. As a result, increased complexity has been injected into deal making. There are more regulatory hurdles to clear, and there are multiple interests, often competing, at the intersection of business and government that need to be reconciled. By no means, however, does this signal a curtain call on deal making.

The nationalist framework cannot be an enduring reality; I believe it will prove itself to be ephemeral.

The relentless drivers of globalization continue to shape all aspects of society, economics and, yes, corporate life, too.

Take Tesla Motors, the electric car company, for example, which saw its valuation surpass that of General Motors, suggesting that Tesla's investors are optimistic about the company's growth prospects. Although Tesla has invested hundreds of millions of dollars to establish itself in the automotive industry, it has yet to become a profitable money-maker (Bloomberg reported that Tesla has only had two profitable quarters since its founding in 2003). Nevertheless, investors still consider Tesla more valuable than General Motors, itself one of the world's most established car makers with its wide distribution, substantial scale, global goodwill and brand recognition.

Globalization is at the heart of this apparent anomaly. Tesla's raison d'être is innovation, technology and connectivity. Elon Musk, Tesla's CEO and co-founder, isn't driven by a desire for Tesla to become the world's largest carmaker. Musk has a more significant goal; he wants to change the very foundation of how (and where) we travel.

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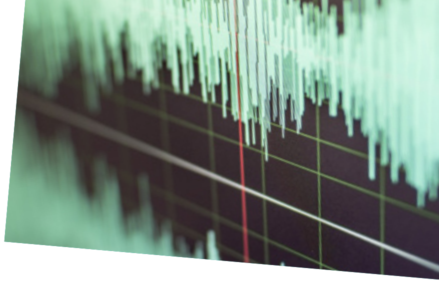

The automotive industry provides a good illustration of how globalization is shaping corporate decision making today. While protectionist rhetoric may fill the airwaves, CEOs of the OEMs continue to look beyond their own national borders to seek out innovation, for the betterment of their organizations and customers, wherever they may reside in the world.

General Motor's decision to sell its Opel brand is evidence that this traditional manufacturing giant recognizes the need to be more nimble and embrace mobility, taking advantage of global trends.

Or, think about the decision by rivals Audi, BMW and Daimler to join together as an unlikely consortium to buy the digital mapping business, HERE, for $3.1 billion. This was a cross-border deal driven by the key trend of connectivity, a long-term bet on the continuation of the forces of globalization. This deal also showcased that CEOs are willing to explore new ways to access innovation – a revision of the traditional M&A handbook – if the ultimate prize is deemed sufficiently worthy.

While the countervailing forces to globalization are clearly prompting pause for thought, in many cases that pause brings opportunities. Markets remain supportive of meaningful valuations and companies have done well solidifying their balance sheets in recent years. This means that the strategic drivers and conditions for M&A remain positive.

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Global security remains a key factor for M&A and is a concern vexing CEOs. However, those executives with whom I speak remain largely optimistic that relative calm will persist, ensuring that the power of globalization remains unaffected. Amidst the short-term fog of populism, nationalism and geopolitical volatility, it is clear to me that just as globalization has defined deal making over the last 20 years, it will continue to do so for the next decade.

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