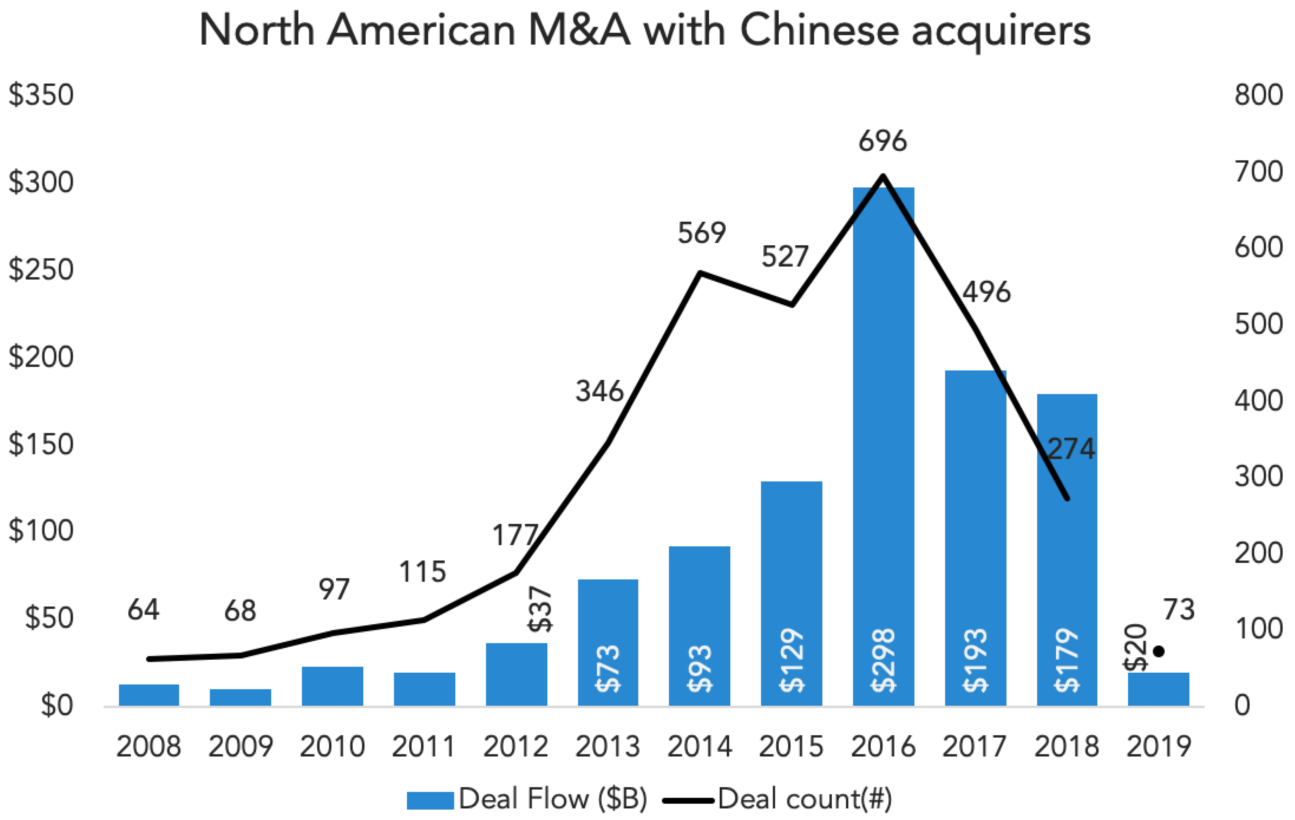
China-driven M&A isn't happening this year

PitchBook | October 31, 2019



Download PitchBook's Report here.

North American M&A activity involving Chinese buyers has fallen off a cliff this year. That's not a complete surprise, but it's not often you see such swift drop-offs without something alarming going on. According to PitchBook's just released North American M&A Report, China-driven M&A is on pace to fall by more than 90% from its 2016 peak. Just over $20 billion worth of deals have been consummated this year through Q3, which would have been a blip a few years ago, when $299 billion changed hands in 2016. Combined M&A value figures treaded water over the past two years, at least comparatively, and a few big deals got done. In the background, though, volume slid very quickly, from 696 deals in 2016 to 496, then to 274 deals, and finally, so far, to only 73 this year.

American companies and Chinese acquirers have more or less ceased doing business, at least for now. Some of that is collateral damage from the trade war, but much more of it is likely CFIUS-related. The Committee on Foreign Investment in the United States has been utilized effectively in blocking several major transactions, mostly on national security grounds. The list of affected sectors is broader than aerospace and semiconductors—reviews are now triggered for energy, transportation, healthcare and even financial services companies. Taken together, the regulatory territory covered by CFIUS reviews is quite extensive. The market is now very aware of the penalties involved, thanks to high-profile deals being scuttled by regulators—including some completed deals that had to be unwound after the fact. It would be interesting to track all the broken deal fees and legal expenses involved in the deals that didn't make it into the chart above.

It isn't clear that an end to the trade war would lead to an immediate recovery in the M&A market. Activity would pick up to some degree with an agreement, but most of these cross-border cancellations boil down to those security concerns, many of them well-founded. As long as Trump remains in office, China remains communist and we continue to give each other the side eye, it may be radio silence on the M&A front for a while.