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Deal Dynamics
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Disruption, divestment, and diversification drive industrial dealmaking

Fortune 200 PPG operates in 70 countries, employs around 47,000 globally and is no stranger to the M&A market. Joe Gette, Assistant General Counsel M&A and Securities, discusses the dynamics of dealmaking in the industrials sector.

What have been the drivers for M&A in the sector this year?

Joe Gette: Companies are taking a careful look at their portfolios and are divesting non-core assets. That's been a large driver of deals right now. You can look at, for example, Dow/Dupont, and Monsanto/Bayer. I think industrials are continuing to look carefully at their portfolios and are making decisions as to what is core and what's not. I think the divestment by the large global industrials in non-cores will continue to drive M&A for a while.

On the subject of technology, what role is digital disruption playing in deal driving activity?

Gette: Right now, M&A and technology go hand-in-hand. M&A is a key tool for companies to grow and expand into new products and new geographies. Companies are using M&A to acquire technologies to improve the quality of their products and advance their businesses. There's a race for technological innovation across industries, and industrial companies are no different. Industrials are looking for innovation to improve efficiency and competitiveness, and with rising costs of raw materials, to reduce costs and increase profits.

Technology can improve and enhance sustainability, which is always a focus for any company. I would say technological innovation will continue to be a key driver for dealmaking.

What are the main challenges in terms of disruption and technology?

Gette: It's not a new phenomenon, but it can be challenging to match the right company with the right technological advancement or potential. Identifying the right technology, at the right time, and being able to take that technology and develop it on a larger scale is the challenge that the scientists have in identifying targets and that corporate development and R&D groups have in finding the best deals.

Integration also can be challenging; when a large industrial acquires a smaller technology company, it is important to strike a balance between continuing to foster the innovative culture and entrepreneurial spirit of a tech start-up while at the same time integrating them into the wider, global business.

There appears to be a wave of consolidation in the industry. In other words, are diversified industrials becoming less diversified?

Gette: We are seeing consolidation, but at the same time streamlining. While acquirers are interested in large deals, they don't want to bring in assets that they don't think will be profitable or fit within their portfolio. So we're seeing a lot of divestitures as a result of large consolidations.

At the same time, companies are expanding into new fields and new areas; technology deals are a great example of this. So, you still have large companies that are extremely diversified – maybe not in the way they used to be across many different types of businesses, but they are diversified in what they consider to be their core business.

Away from technology issues, what will be the main challenges to dealmaking in the coming months?

Gette: There is steep competition out there for global deals and cross-border deals. A lot of companies have cash to spend, and there's available financing and a desire to grow through M&A. This drives valuations higher, which can be a challenge, especially for strategic buyers focused on driving profitability and maximizing shareholder value.

Then there’s political and regulatory change and uncertainty. Uncertainty can be an enemy of M&A, because it’s harder to predict reliably whether and how a deal can get done. This can make it more difficult to negotiate the transaction. But in today’s dynamic environment, companies that want to grow and stay ahead of the game can't take a wait-and-see approach. Dealmakers must do their best to navigate the changing times and build the risk of political and regulatory uncertainty into the equation.

A good example of this is the increase in protectionism. Brexit has become an issue that companies must grapple with in one way or another, and figure out the impact, not only on operations, but also on transactions that have a UK component.

Foreign investment rules and regulations in many different countries are being changed or revised. For example, the Foreign Investment Risk Review Modernization Act (FIRRMA) legislation in the US will expand the reach of CFIUS, and make hurdles on some foreign investment harder to clear in the United States.□

It's an amazingly dynamic time. It will be interesting to see how it all plays out and continues to change, and companies will have to engage in the continuous risk and reward analysis that comes with changing times. I expect industrial companies will continue to look carefully at M&A as a key tool for seizing opportunity and navigating challenge.

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