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Mergermania: Why Mergers Could Make for Big Winners in 2016

Following a huge year of deals, more companies are already eyeing mergers to jump-start growth.

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Even if you're watching that resolution to lose 10 pounds drown in a sea of ice cream, you can still hold out hope that 2016 will be a year of transformation. And so it is for a host of companies, bloated or cash-starved, trying to win back the adoring gazes of eager investors.

"More than half of mid-sized U.S. companies, those with annual revenue between $5 million and $2 billion, are looking for transformative deals to help them jump-start revenues," says Bob Rubino, executive vice president and head of corporate finance and capital markets at Citizens Commercial Banking.

Yet the marketplace movement towards mergers goes beyond a simple case of turning on a faucet: How about stirring up a tsunami? Investments experts agree there wouldn't be a drop of hyperbole to forecast 2016 as the Year of Mergermania.

"Last year's record-breaking $3.8 trillion in mergers and acquisitions, which featured several mega-deals among very large corporations, seems to have had an impact on the thinking of many middle-market executives," Rubino says. "Many feel this year could be their year to make a deal."

Mergers and acquisitions are also known as M&As, but you could well nickname them M&M's for their sweet power to tempt the C-suite executives. So stock market sugar rushes aside, what's behind it all, really?

Last year's monumental M&A record rested on a number of factors. For starters, M&A numbers have grown continuously every year for at least a decade. Second: Those blockbuster deals pumped plenty of rocket fuel into the pipeline. And as a recent Citizens report contends, revenue pressures have played a major role.

In this landscape of billion-dollar bets, tech and health care companies led the way. In one landmark deal between two firms barely known to the public, Netherlands-based NXP Semiconductors (ticker: NXPI) put up $16.67 billion to land Freescale Semiconductor (FSL).

But that doesn't mean the door's open for any ambitious business to Pass Go and Collect $200 million, even if you boast clout aplenty. After years of trying, cable and communications giant Comcast Corp. (CMCSA) gave up its $45.2 billion bid to take over Time Warner (TWX) in 2015.

Then again, one pharmaceutical powerhouse did the dance twice. In February, Pfizer (PFE) announced plans to land injectable drug company Hospira for more than $17 billion. Then in November, it scooped up Botox maker Allergan for an astonishing $160 billion. Though they agree on practically nothing else, presidential candidates Bernie Sanders and Donald Trump decried the latter deal, even as Pfizer shopped around some more: this time for movers.

"Allergan is based in Ireland, where taxes are lower," says E. Han Kim, a finance professor at the University of Michigan's Ross School of Business. "The corporate tax rate in the United States is still one of the highest in the world, so unless that changes, the incentive for tax-inversion deals is still there."

Rob Berick, senior vice president and managing director of Falls Communications in Cleveland, also sees mergers growing in popularity. "Mergers are increasingly global in nature for tax and market share/scalability reasons," he says. Yet it can also spawn drama worthy of a daytime soap, one that would no doubt earn the title "As the Globe Turns."

"Global and regional political instability, particularly in diversified companies, will provide heartburn to a lot of CEOs and boards," says Robert Annas, senior managing director of SOLIC Capital in Chicago. "With world economies beginning to slow, financing markets will tighten a bit."

And when markets tighten, corporate types loosen their ties, sometimes to the point of confusing even the sharpest investors. It's tricky enough connecting the dots when two companies become one. But how about when two companies that hope to become one are already entertaining plans to become three?

Consider the proposed merger of Dow Chemical Co. (DOW) and DuPont (DD), a $120 billion pact that made headlines in December. "There are certain forces driving to put the two companies together, but once that's accomplished, they've already indicated there's an intent to spin off certain parts of the businesses," says James Cassel, chairman and co-founder of Cassel Salpeter & Co., an investment banking firm in Miami. "They believe the spinoff companies will have critical mass with their respective business and will prosper. Whether or not that's the case remains to be seen."

As for the broader M&A landscape, experts see all sorts of fireworks on the horizon. One thing is for certain: 2016 will be another explosive year, but just how incendiary is anyone's guess.

"There is a split decision on what 2016 will be," says Steve Sapletal, a director in the Minneapolis office of West Monroe Partners. "Mergers will continue to be strong, but I would expect longer diligence time frames and much more attention on customer and employee diligence."

Or perhaps not. "In most markets there are too many players and consolidation will take place," says Philip Rooke, CEO of the e-commerce platform Spreadshirt. "We'll see many mergers and acquisitions as well as big strategic partnerships in 2016 and 2017. In general the pressure will grow: Get big or die."

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