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CFA Trending Topics

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With equity markets continuing to reward corporate clarity, M&A has increasingly trended towards industry consolidation

Key takeaways:

- Equity markets continue to apply a “conglomerate discount” to firms with numerous reporting segments.
- M&A continues at a record pace and firms are increasingly acquiring firms in their own industries vs. just five years ago.
- By concentrating operations on a few core segments (through strategic divestitures and sector-focused M&A), firms are building scale while preserving focused business strategies.

An analysis of a broad swath of large U.S. firms over the past three years reveals that firms with more than three reporting segments typically trade at PE- and EBITDA-multiple discounts to their industry peers, highlighting the persistence of the "conglomerate discount". This focus on corporate clarity has not only spurred trends in divestitures and spin-offs, but contributed to a shift in the complexion of M&A more generally, as well. Publicly traded U.S. strategic buyers are purchasing more public targets within their own industries when compared to five years ago. So far in 2018, 78% of all U.S. public-to-public deals were in the same sector, compared to 64% in 2013.[1] This trend suggests firms are seeking to achieve both growth and clarity objectives by not stepping outside of their industry to acquire targets.

[1] Sectors defined by SIC classification

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