Spike in cash takeovers could be bad omen: TrimTabs

By Editorial Staff *Wed, Nov 4, 2015*

"Merger activity tends to swell around market tops as confident corporate leaders turn to deal-making to boost earnings and revenue late in the economic cycle," said David Santschi, CEO of TrimTabs, a Sausalito, CA research firm.

Cash takeovers of U.S. public companies have been occurring at a pace not seen since shortly before the global financial crisis, according to TrimTabs Investment Research. For the six-months ended on October 31, cash takeovers hit a record value of $457.8 billion, about 12% higher than the previous six-month record of $406.5 billion set from February 2007 through July 2007, according to the Sausalito, CA financial research firm.

"The merger boom is being fueled by a combination of extraordinarily easy credit and stagnant revenue," said David Santschi, TrimTabs' CEO. "It's a lot easier to buy growth with cash or borrowed money than it is to grow a company organically, particularly when the economy isn't expanding much."

In October, cash takeovers hit a monthly record of $97.5 billion, TrimTabs said. Cash mergers topped $50 billion in five of the past six months.

TrimTabs sees this trend as a "cautionary sign" for U.S. equities. "Merger activity tends to swell around market tops as confident corporate leaders turn to deal-making to boost earnings and revenue late in the economic cycle," said Santschi.

Twelve deals used at least $10 billion in cash in the past six months, including four in the Information Technology sector. The largest were Dell's agreement to buy EMC using $46.2 billion in cash, Anthem's $45.0 billion bid for Cigna, Berkshire Hathaway's $32.4 billion offer for Precision Castparts, and Charter Communications' $28.3 billion bid for Time Warner.