



SQUIRE 
PATTON BOGGS

Present perfect, future tense

Exploring M&A in 2018 and beyond

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Foreword

Welcome to the first Squire Patton Boggs M&A Overview, produced in association with Mergermarket. In this report, you'll find key M&A data for 2018 to the third quarter, analysed by region and sector, underscored with insights into what is driving corporates and private equity houses to seek out transactions and where they see most opportunity.

So far this year, M&A activity has built on the strong performance seen in 2017, with values in particular reaching heights not seen since before the financial crisis. High liquidity, low interest rates, technological transformation, rising corporate profitability and strong private equity fundraising are all converging to create perfect conditions for deal-making activity globally.

At a time of increased geopolitical uncertainty and rising protectionism in some key markets, our report points to an increase in domestic deal-making activity as companies and investors look closer to home for M&A opportunities. However, cross-border deals continue to make the headlines as some of the largest transactions of the year so far, including Takeda's US\$79.7bn acquisition of Shire and Comcast's US\$51.5bn purchase of Sky. These blockbuster deals demonstrate the boldness that characterises many corporate strategies today.

Perhaps unsurprisingly, given the rapid advancement of disruptive technologies with applications across all sectors, technology, media and telecoms (TMT) is one of the most active sectors for M&A by value, coming in behind energy, mining & utilities (where transactions tend to be much larger in size). And while the technology giants such as Microsoft, Google and Apple are clearly among the most active acquirers in this space, businesses in other sectors are increasingly turning to technology deals to transform their operations, customer offerings and, in some cases, even their business models. Healthcare-related deals also account for a large share of deal value as large incumbents seek ways of addressing global health challenges, increasing efficiency and improving patient outcomes.

These trends are set to continue through 2019 and should underpin continued M&A activity. However, we expect deal-making to advance in a less even pattern by region than has been the case over the last two years. Protectionism and shifting policies are already having an impact on Chinese and US outbound M&A, while the continued uncertainty around Brexit looks set to dampen some appetites for UK assets, in particular, as the March 2019 deadline approaches. On the other hand, continental Europe may well attract more investor attention and high growth in India, and economic and corporate governance reforms in Japan suggest these markets will also account for an increasing share of global M&A.

We hope you find this report informative and insightful.



Tony Reed
Partner, Corporate
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Present perfect

With corporate coffers bulging, confidence high, and technology disrupting all sectors, 2018 is set to be a record year for M&A

M&A activity has been edging upwards since the end of 2012, with annual value and volume totals largely trending higher year on year, and 2018 so far has been no exception.

A new record on the way?

The first three quarters of 2018 saw brisk M&A activity globally: between Q1 and Q3 2018, there were 13,820 deals announced worth US\$2.8tn, making for a potentially record-breaking year for deal value. By comparison,

the same period in 2017 saw US\$2.2tn of deals announced. Reflecting increased deal sizes, volumes were lower than in 2017 – there were 14,652 deals announced in the first three quarters of last year.

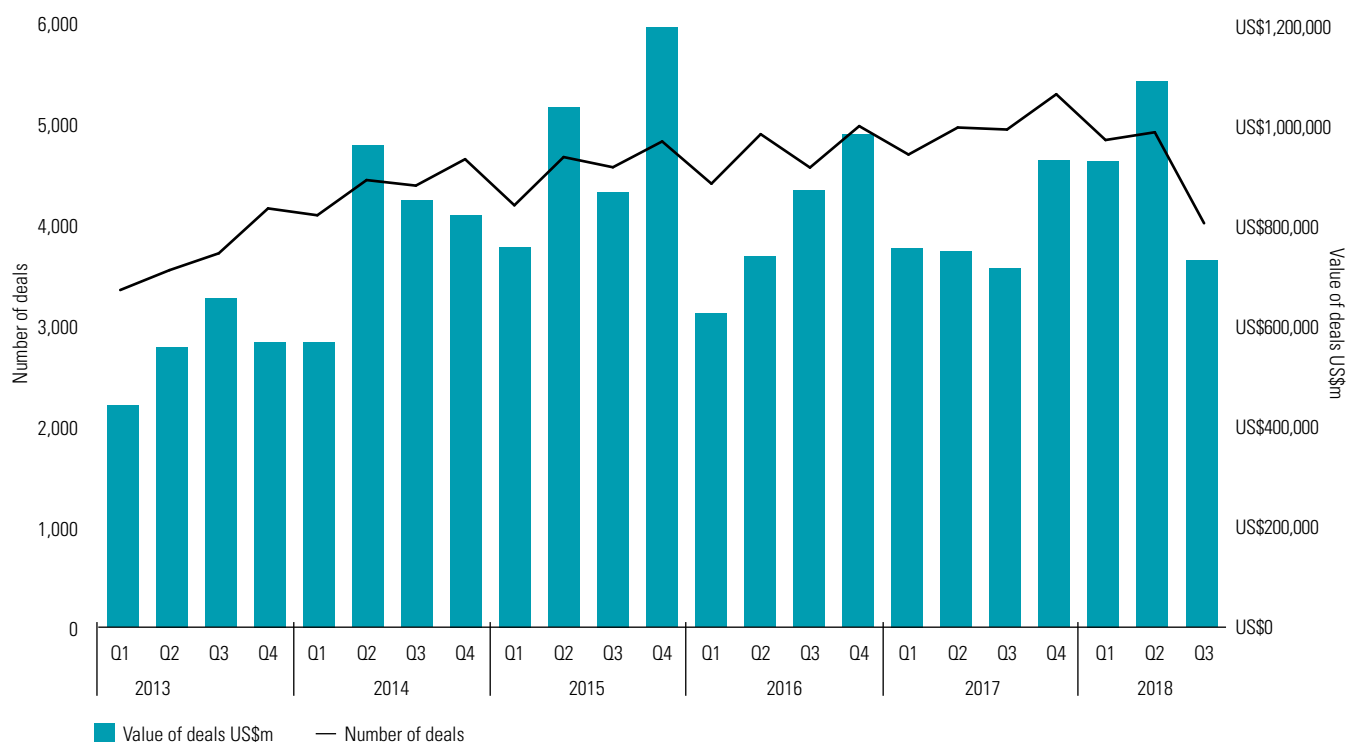
While the third quarter of 2018 saw a dip in value compared with Q1 and Q2, it is worth noting that the year-to-date figures are the highest since pre-crisis days (in 2007, US\$2.9tn of deals were announced to the end of Q3).

Absent any major shock or dampening of sentiment around US-Chinese trade relations, 2018 may be on course to beat 2007 full-year totals, which would make it the highest year on record for announced deal value.

Deals making the headlines

Healthcare-related transactions feature heavily in the deal value league tables for the first three quarters of 2018. By far the largest deal so far in 2018 is the US\$79.7bn acquisition

Global M&A activity – quarterly



of Ireland-headquartered biotechnology company Shire by Japanese pharmaceuticals group Takeda, announced in Q2. The deal is part of Takeda's transformation strategy and is driven by its stated desire to create a global biopharmaceutical leader with a focus on gastroenterology, neuroscience, vaccines, rare diseases and oncology therapies. US health insurer Cigna's US\$67.6bn deal to acquire pharmacy benefit manager Express Scripts is the second largest deal of the year so far, and is the largest domestic M&A transaction.

TMT also featured highly in the deal value rankings. The acquisition of US-based Sprint by T-Mobile USA, for US\$60.8bn, was the third largest deal in the year to the end of Q3 2018, with US telecommunications group Comcast's US\$51.5bn acquisition of UK rival Sky coming in fifth place by value, after it beat 21st Century Fox in its bid to acquire the shares it did not already own in the business.

The fourth largest deal of the year so far, announced in Q3, is US natural gas company Energy Transfer Equity's US\$59.6bn deal to acquire sister partnership Energy Transfer Partners to simplify the ownership of the two businesses.

Regional overview

The year to date has seen some divergence in activity by region. Asia Pacific outbound activity, in particular, has increased over the same period in 2017, by 124% to US\$245.5bn. The US\$79.7bn Takeda-Shire deal will certainly have boosted the totals. Announced in April 2018, it made a significant contribution to record-breaking quarterly outbound Asia Pacific M&A value in Q2 2018, at US\$154.2bn or 43% of cross-border M&A by region globally in that quarter.

European inbound investment also saw a sharp rise in the first three quarters of 2018, up 38% on 2017 to US\$383.3bn, with many overseas buyers looking to capitalise on stronger economic growth in the region. Ireland and Spain, both registering economic improvements, were second and third by value in the period, accounting for US\$84.5bn and US\$33.6bn of inbound European activity by value, respectively. Despite continued uncertainty around its status following Brexit, the UK retained top position, capturing US\$116.1bn of investment from outside Europe. European outbound investment, however, fell by 14% compared with 2017 figures to US\$150.8bn.

Meanwhile, North America registered falls in both inbound and outbound M&A values, by 24% to US\$163.7bn and 5% to US\$276.9bn, respectively. This may be the result of increased protectionism in the US, with the risk of an escalation of a US-China trade war dampening investor appetite for both outbound and inbound M&A. Indeed, the US has seen a 44% increase in domestic deals by value so far this year, from US\$662.6bn in the first three quarters of 2017 to US\$952.4bn in 2018, suggesting that US companies are looking closer to home for expansion opportunities in the light of international trade tensions.

This increased focus on domestic M&A is also reflected globally, with a 32% rise in value to US\$1.7tn, the highest value for the first three quarters of a year since 2010. In contrast, cross-border activity increased by only 12% compared to the same period in 2017.

Top deals Q1-Q3 2018

Target company	Target sector	Target country	Bidder company	Bidder country	Deal value US\$(m)
Shire Plc	Pharma, medical and biotech	Ireland (Republic)	Takeda Pharmaceutical Company Limited	Japan	US\$79,744
Express Scripts Holding Company	Business services	USA	Cigna Corporation	USA	US\$67,601
Sprint Corporation	TMT	USA	T-Mobile USA, Inc.	USA	US\$60,806
Energy Transfer Partners, L.P. (97.64% Stake)	Energy, mining and utilities	USA	Energy Transfer Equity, L.P.	USA	US\$59,612
Sky Plc	TMT	United Kingdom	Comcast Corporation	USA	US\$51,494

Deal drivers

High levels of capital available globally, technological disruption across all sectors, increasingly vocal shareholders and US business tax cuts are just some of the factors behind the high value deal activity witnessed so far this year.

1. Strong liquidity

Quantitative easing and low interest rate policies by many of the world's central banks since the crisis have built high levels of liquidity into the financial system. Investors seeking yield have turned to new and alternative asset classes, leading to a burgeoning of additional sources of finance. Annual fundraising by private debt players globally, for example,

almost doubled in the space of five years from US\$63bn in 2012 to US\$107bn in 2017, according to research firm Preqin's figures, with a similar pattern across other types of private capital, such as that destined for real estate and private equity.

Strong stock market performance has also created the right conditions for strong corporate balance sheets. In the US, for example, the S&P 500 had risen by over 8% in the year to mid-October 2018. In addition, there has been strong economic growth globally – this is exemplified by the EU28 countries, which recorded their highest growth rate for a decade in 2017, registering 2.4%.

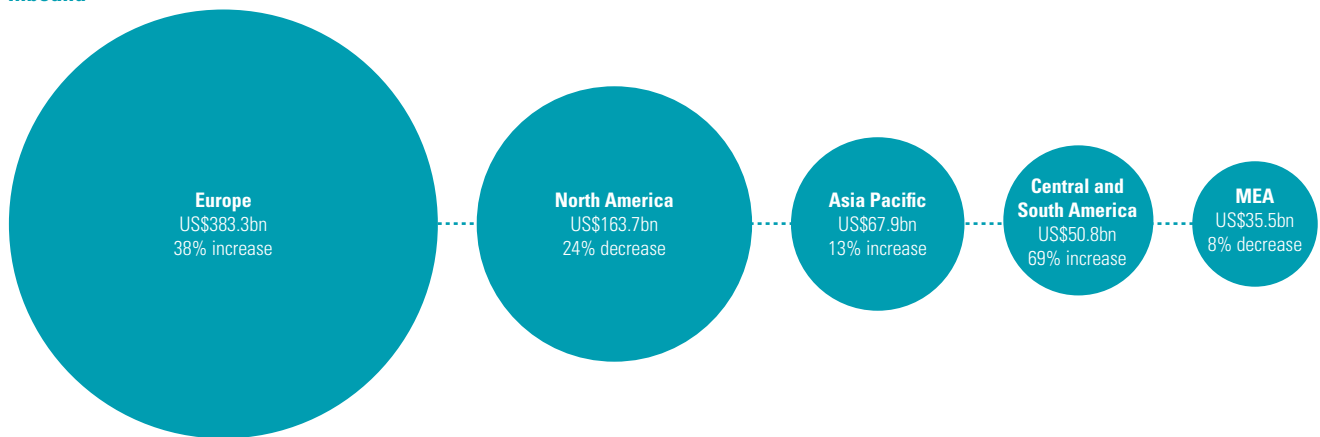
Combined, these factors are fuelling appetites for M&A globally, as companies seek to capitalise on the benign financing environment to expand through acquisition.

2. Private equity on a roll

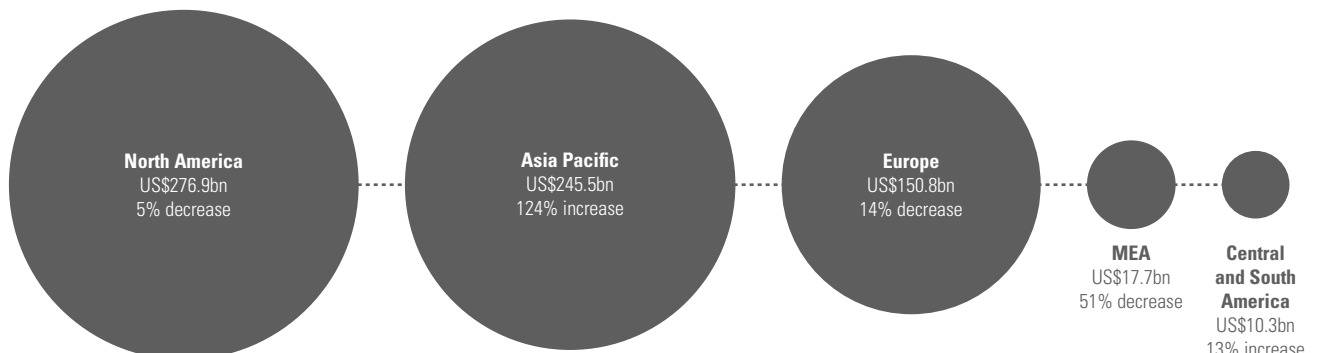
At the same time, private equity deal activity has increased markedly. Driven by record amounts of dry powder – it reached US\$1.14tn in September 2018, according to Preqin figures – private equity firms are under pressure to deploy capital. According to Mergermarket data, the first three quarters of 2018 saw private equity firms globally announce buyouts worth US\$416.3bn, up from US\$408.2bn in the same period of 2017, an already strong showing by this type of investor.

Regional inbound and outbound M&A Q1-Q3 2018

Inbound



Outbound



Percentage changes compare figures for Q1-Q3 2018 with the same period in 2017

The largest buyout for the period was Blackstone's US\$17bn deal to acquire a 55% stake in the financial and risk business of the Thomson Reuters Corporation.

3. Activist spirit

Shareholder activism has been alive and well in 2018, as British-Dutch conglomerate Unilever's u-turn over its plan to locate its headquarters in the Netherlands attests. Shareholders are increasingly holding boards to account, not only on corporate governance matters, such as executive pay awards, but also on strategic aims. This is driving M&A, mainly through pressure to divest, as in the case of UK telecommunications group BT, which is facing calls for a spin-off of its broadband infrastructure business, Openreach. German manufacturer ThyssenKrupp and Swiss engineering company ABB face similar divestment demands from shareholders, while others, such as Athenahealth in the US, have faced calls for a sale of the entire business.

4. Technological disruption

Fast-paced technological innovation has been a key driver for M&A for the last few years. Technology companies and more 'traditional' businesses have sought to keep pace with new rivals, increase efficiency and meet increasing customer demands. A recent Deloitte survey of 1,000 executives found that technology acquisition is now the most important strategic driver for M&A – ahead of expanding customer bases – with digital strategy ranking fourth. Software business Adobe's acquisition of cloud platform marketing business Marketo for US\$4.75bn is one example of the former, as is payments company PayPal's US\$2.2bn deal for Swedish fintech startup iZettle. Software giant Microsoft is stepping firmly into the artificial intelligence arena, with a number of investments this year, including Semantic Machines, Bonsai and Lobe.

Meanwhile, a report from PwC shows that four out of 10 acquisitions of technology companies in the first half of 2018 were announced by businesses in other sectors, with the consumer and retail industry leading the pack, accounting for 32% of cross-sector deals involving technology. US department

Sector overview

Europe's strong M&A showing has been driven so far this year by TMT deals, which registered a large increase on comparable 2017 figures to US\$162.3bn, a reflection of the interest among technology companies and cross-sector investment trends noted above. Pharmaceutical, medical and biotechnology deals have also made a significant contribution to Europe's deal value totals; they were up 117% to US\$136.6bn, although a large proportion of this increase is accounted for by the Takeda-Shire mega-deal. By volume, industrials and chemicals was the most active sector in Europe, notching up 1,159 transactions. This is, in part, as a result of restructuring efforts by many of Europe's conglomerates, with activist shareholders pressuring groups such as ThyssenKrupp and ABB to divest non-core or underperforming assets.

In North America, by contrast, inbound M&A has declined following increased scrutiny by US authorities around overseas buyers acquiring certain companies, with Chinese acquirers facing a particular clampdown. As a result, a number of such transactions have been pulled, including the acquisition of Lattice Semiconductor by Canyon Capital Partners and Xcerra's sale to a Chinese investment fund, Hubei Xinyan (although Xcerra was later acquired by fellow US business Cohu).

store chain Nordstrom is one example: it bought two technology startups, BevyUp and MessageYes, earlier this year to bolster its digital selling capability and interact more closely with customers.

5. Corporate confidence and mega-deals

Robust stock market performance, the prospect of increased earnings and a benign financing environment are contributing to boardroom confidence around M&A strategies. In its October 2018 Capital Confidence Barometer, EY found that 90% of executives expect the M&A market to improve still further, while 80% see corporate earnings rising. Large, transformative deals are therefore high on the agenda for many businesses, with the volume of large and mega-deals in Q2 2018 at 190, the highest since Q2 2007, when 213 such deals were announced.

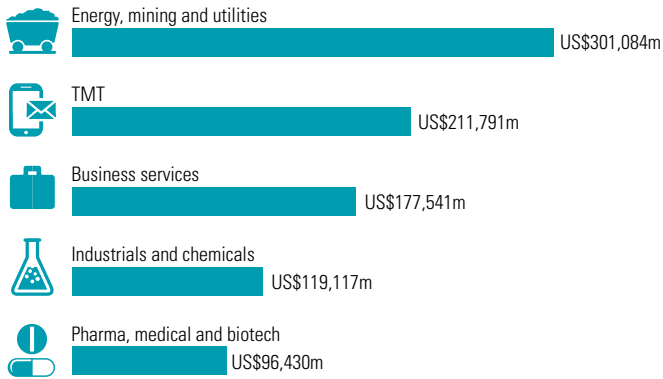
6. Business-friendly background

Underpinning some of this confidence among dealmakers are moves to create an increasingly business-friendly environment. This is most evident in the US, where recent tax reforms have led to a reduction in the corporate rate,

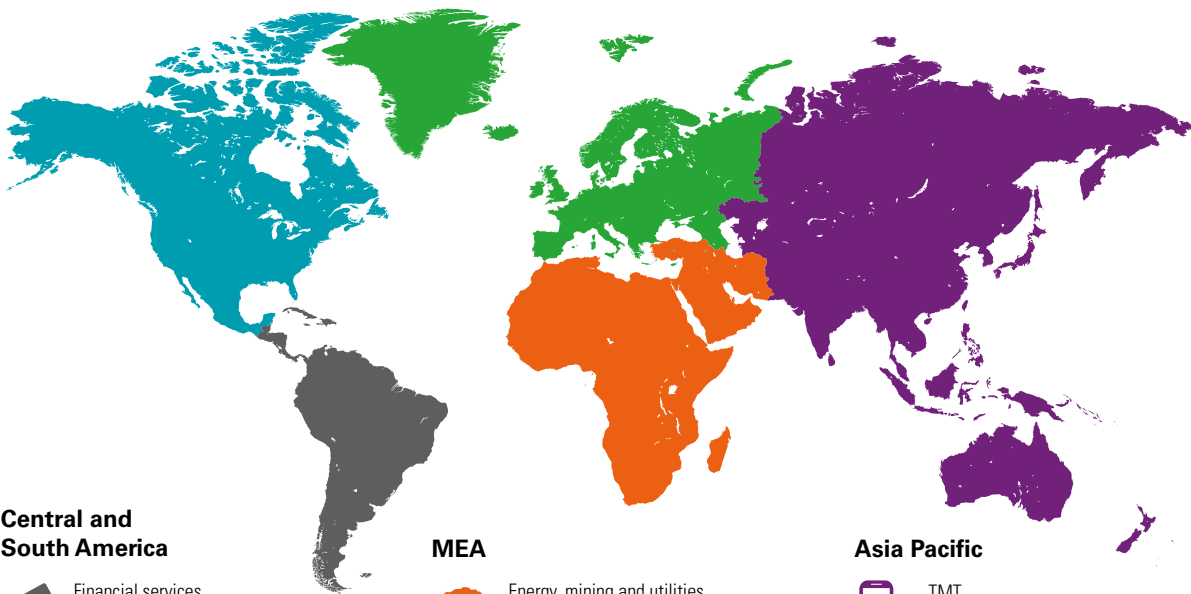
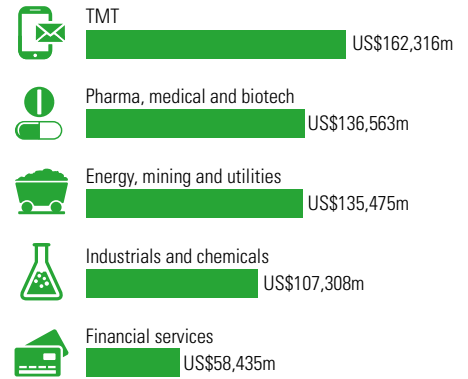
from 35% to 21%, adding further cash to US company coffers. While the US M&A values and volumes always top the charts by country, there is evidence to suggest such measures may have prompted US buyers onto the market. US acquirers accounted for 44% of global deal value in the first three quarters of 2018, a greater proportion of total value than in the same period in any of the previous four years.

Top sectors by target region Q1-Q3 2018

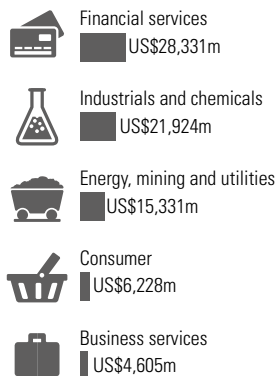
North America



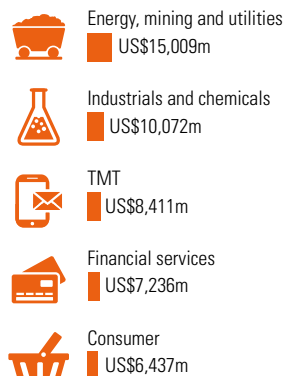
Europe



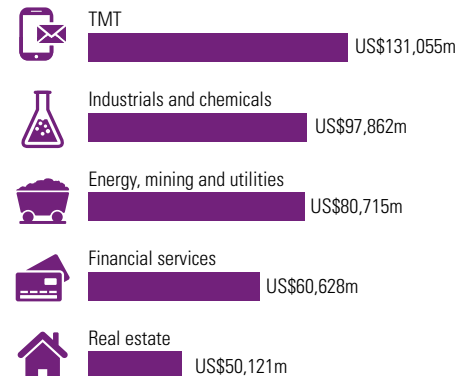
Central and South America



MEA



Asia Pacific



Future tense

While 2018 could turn out to be a record year, issues such as protectionism, Brexit and rising interest rates make 2019 difficult to predict

After several years of robust M&A figures worldwide, activity in 2019 looks set to be patchier as risks emerge in pockets of the global economy and policy shifts in some key markets filter through to deal values and volumes.

On a positive note, liquidity in the system remains high, with strong availability of debt from banks, bond markets and private debt funds, and corporate balance sheets continuing to improve. These factors are highly supportive of a healthy M&A market. At the same time, the unprecedented level of dry powder among private equity firms should mean that buyout activity will at least stay on a steady path through 2019 and beyond.

Yet while business confidence around M&A remains high – as the EY study findings outlined above suggest, with 90% anticipating a rise in M&A – fewer than half of executives (46%) expect to pursue an acquisition themselves over the next year, the lowest in four years, with policy uncertainty cited as the biggest risk to deal-making. At the same time, investor confidence levels are starting to reflect some of the risks emerging in the global economy, such as an increase in protectionism in some regions and a concern that the economic cycle may be turning. After remaining in positive territory for the first half of the year, State Street's Investor Confidence Index for September 2018, for example, showed a decline of 5.7 points, the largest in a year, led in particular by North American investors.

The US

This mixed outlook is apparent in the US, which accounts for a significant proportion of worldwide M&A figures. There are certainly strong tailwinds in the form of business-friendly incentives put in place by President Trump, such as recent tax reforms. These have, according

to the World Bank, prompted a “fiscally induced acceleration” of the nation's economic expansion, with GDP edging up to 4.2% for Q2 2018. The full effects of the tax reforms on business decision making may not be seen until next year, suggesting that domestic M&A is set to rise further in the US through 2019. At the same time, absent of any major escalation in the US-China trade dispute, US businesses may opt to capitalise on a strengthening dollar – with upward moves more likely as the Federal Reserve further increases interest rates – and seek acquisitions overseas, potentially also leading to an increase in outbound US M&A.

October 2018, however, saw news that the US government planned to increase further its scrutiny of overseas investments in US companies, particularly those in the technology space, in a move that would extend authorities' powers, enabling them to examine non-controlling stakes. This is likely to dampen inbound US M&A deal totals further over the coming year.

Europe

European M&A activity has so far remained robust through 2018, led by UK deals, despite ongoing uncertainty around the outcome of Brexit negotiations. As we edge closer to March 2019, it seems likely that deal-making, in the UK at least, will slow down as businesses and investors adopt more of a “wait and see” attitude. This is already apparent in the domestic deal figures for Q2 and Q3 2018, where activity has declined sharply. Where in Q1, UK buyers announced 194 UK deals worth US\$41.4bn, by Q3, this has slowed to 186 transactions valued at just US\$10.8bn, a 74% decrease in value.

With the UK's status still to be determined, non-UK European deal-making may be set for

a rise through 2019, as those seeking to access the EU opt for continental European targets and as the region continues its economic recovery.

Asia Pacific

With Asia Pacific outbound and inbound M&A rising sharply over the last three quarters, this region may well be set for further strong activity for buyers and sellers over the coming year, although the pattern may be far from uniform across the different markets. The Chinese government's initiatives to stem capital outflows over the past two years are starting to bear fruit, as China's outbound M&A has moderated in recent times. It registered a value of US\$77.5bn this year to Q3, down by 5% on the same period in 2017 and by 51% on Q1-Q3 in 2016.

The reverse is true in Japan. Economic and corporate governance reforms are leading to many businesses looking beyond domestic borders for M&A. While the Takeda-Shire deal dominates the headline figures for the year so far, there are indications that more mega-deals are on the horizon, with many of the country's biggest companies, including Hitachi, Fujifilm, Ricoh and Sumitomo Chemical, suggesting they are seeking large, outbound deals. Indeed, Fujifilm announced a US\$8.6bn deal to acquire US-based Xerox earlier this year.

India, meanwhile, is experiencing strong growth in inbound M&A, as its economy outstrips that of China – its GDP growth is forecast to reach over 7% in 2018, compared with China's 6.5%, according to World Bank estimates. Indeed, inbound M&A deal values in India doubled from US\$16.7bn in Q1-Q3 2017 to US\$42.1bn for the same period in 2018. The country is attracting the attention of large international corporates in particular, including US retailer Walmart, which acquired Flipkart Online

Services earlier this year for US\$16bn, and French Schneider Electric, which bought Larsen & Toubro's electrical and automation business for US\$2.1bn.

Technology – an unstoppable driver?

Accounting for 19% of the value of M&A deals globally in the first three quarters of 2018, TMT remains the most active sector for deal-making, even as the US saw a slowdown in this area. There is little reason to suggest this will change in the foreseeable future. New technological innovations, from the development of blockchain and artificial intelligence through to increasingly smart ways of running businesses, are continuing to disrupt sectors and industries. Consumer-related and retail businesses have been among the first to feel the heat of more nimble, tech-enabled competitors, and companies across all sectors are now tapping into these new technologies through M&A, to ensure they remain relevant to their customers.

Fintech has seen increasing interest from investors and financial services businesses, with payments businesses seeing particularly strong activity – Vantiv's US\$12bn acquisition of WorldPay is just one example – and this looks set to continue, as the sector increasingly finds applications for blockchain and automation technology. Healthtech will also continue to see high activity, as the world's demographics continue to strain healthcare budgets and new, cheaper and more effective ways of delivering healthcare services are developed. The involvement in the market of technology giants, such as Amazon, Apple, Google and IBM are, according to a recent report by Hambleton Partners, forcing incumbents to embark on M&A – Philips, for



example, has made seven acquisitions in the 30 months to the end of H1 2018, the report says.

US consolidation to continue

With geopolitical tensions on the rise and strong economic growth in the US, many businesses are looking domestically for M&A targets, a trend that looks set to play out over 2019. This is particularly pronounced in the business services market, where it was the third most active sector by value in Q1-Q3 2018 for US domestic M&A, with only TMT and energy, mining and utilities ahead. This compares with seventh place for the same period in 2017. Part of the driver of this is the sector's need to respond to new technological developments, as outlined above, but it is

also down to strong economic growth and increasing corporate profits, a key indicator of corporate demand for business services. In the second quarter of 2018, US pre-tax corporate profits rose by 7.7% compared with the same period in 2017, according to the US Department of Commerce.

While deal-making has been on a roll, particularly value-wise, for the past three years, it would seem that 2019 may be somewhat slower until the headwinds of Brexit, protectionism and trade wars blow themselves out. On the other hand, the key deal drivers are still very much in place if companies choose to come to the negotiating table. It will certainly be an interesting year.

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About Squire Patton Boggs



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Our Global Corporate Practice consists of more than 370 corporate lawyers with an on-the-ground presence in all major financial and industrial centres and in emerging markets. Our lawyers combine in-depth knowledge of local law, local languages and local transaction practices, with global best practice and sector expertise. Our teams provide comprehensive legal services spanning all aspects of complex local, cross-border and multi-jurisdictional corporate matters.

We advise public and private company clients, including numerous Fortune 500 and FTSE 250 companies, as well as financial institutions, private equity and venture capital firms, emerging companies and entrepreneurs. In M&A matters, our advisory work covers the full range, from deal inception through the closing process and post-closing integration, including national and cross-border mergers, acquisitions (including takeovers), divestitures and restructurings. While the deep expertise of our multidisciplinary industry groups in sectors such as chemicals, diversified industrials, energy, life sciences, and technology, financial services, retail, consumer goods, and food and drink, gives us insight and understanding into the business drivers organisations face throughout each transaction and the issues that are critical to completing their transactions.

Our global team of M&A lawyers is supported by colleagues specialising in every relevant practice area, from taxation and benefits, intellectual property, regulatory, restructuring and insolvency, competition, antitrust and public policy, real estate, environmental, pensions and labour and employment.

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