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The beginning of a new M&A season
Future of the deal

M&A 

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Executive Summary

Mergers and acquisitions are undergoing a period of immense change.

Last year, global deal volumes climbed four percent to 49,612 deals, however deal values fell marginally by two percent to \$3.1 trillion, as megadeals slid. But in the first four months of 2018, nearly \$1.7 trillion worth of deals have been announced, the highest activity since 2007.¹

This could be a new wave of mega-deals, or it may be a temporary flourish. To some extent, there is urgency to spend now, with the coming end of low interest rates and of liquidity-boosting quantitative easing (QE), firstly in the US, and soon in the Eurozone and Japan.²

Cash reserves are indeed substantial, with non-financial constituents in the S&P Global 1200 Index holding over \$3.9 trillion, and private equity firms sitting on a record \$1 trillion of investor funds.³ For private equity houses, which represent over a seventh of M&A market value, last year's funding and positive debt conditions pumped up deals by 28% to \$467 billion. We expect this figure to accelerate significantly in 2018, as deployment pressure soars.⁴

As a result of the decline in the headline business tax rate from 35% to 21%, and allowing tax-effective profit repatriation and asset purchase expensing, millions of extra dollars will remain on the balance sheets of profitable firms.

This year we are expecting to see a rise in shareholder activism and the primary demands of these activists are centered around portfolio restructuring, innovation investments and operational efficiency.

Divestments grew to \$472 billion last year, one of the highest levels since 2007. In a recent Deloitte survey, 70% of businesses said they expect to make at least one sell-off in the next two years. They will need to prepare and hand over with immense precision.⁵

The dizzying pace of technological innovation has unleashed a fundamental shift in M&A, last year nearly 60% of disruptive technology acquisitions were done by the non-tech sector. Throughout 2018, firms will be alive to disruptive shifts, building on 2015-17 spending of \$634 billion of related acquisitions. Companies' very survival depends on their ability to serve evolving customer demands and create business models for the future, as industries digitise and converge.

Many corporates will spend cash assertively to beat incoming economic and disruptive challenges. For others, the changing supply of liquidity and debt will rattle nerves and provoke hesitancy. Given the economic environment, and seismic shifts such as Brexit, US and Chinese trade tariffs, and Chinese capital controls, buyers have the choice to sit still or take the reins of change. Focus on target selection, diligence and execution will be paramount to capturing success.



Iain Macmillan
Global Managing Partner
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A handwritten signature in black ink that reads "Iain Macmillan". The signature is written in a cursive, flowing style.

2018: Deals peak, but so does complexity

With so much change, 2018 will clearly be a very important year for M&A.

Growth is back on the table, at least for the moment, amid much-changing political and economic environment. Crossing the \$927 billion value mark in the first quarter is unprecedented, and it shows the appetite of businesses to acquire in order to stay ahead of competitors and capture innovation. Cross border acquisitions, which shed nearly a quarter in value last year, grew a notable 33% in the first quarter of 2018 compared to a year earlier.

There were some particularly active areas in the last year. Technology, media and telecoms, consumer business, real estate and energy and resources led by value, posting more than \$2 trillion in combined deals.

Meanwhile, economies continue to strengthen in many nations. Global GDP growth was stable at 3.7% last year, led by Asia Pacific at 5.5%, with the US and the Eurozone both growing at 2.3%. Most regions appear to have recovered relatively well from the economic crisis.⁹

However, there are also complex headwinds. Much economic growth has been driven by QE and low interest rates, a form of loose monetary policy that has injected both cash and debt into markets worldwide. Significant questions remain as to how the unwinding of QE will affect lending and business activity as a whole. With inflationary pressures being felt in a number of major markets outside of the Eurozone,¹⁰ the start to 2018 saw enough equity volatility to spook traders.¹¹

In the US, the Trump administration has threatened tariffs in a number of industries,¹² prompting retaliation by China and the EU.¹³ China continues to restrict capital flows and outbound spending.¹⁴ The government is also clamping down heavily on companies' overseas acquisitions and use of leverage.

Figure 1. Mega deal value as percentage of total deal value

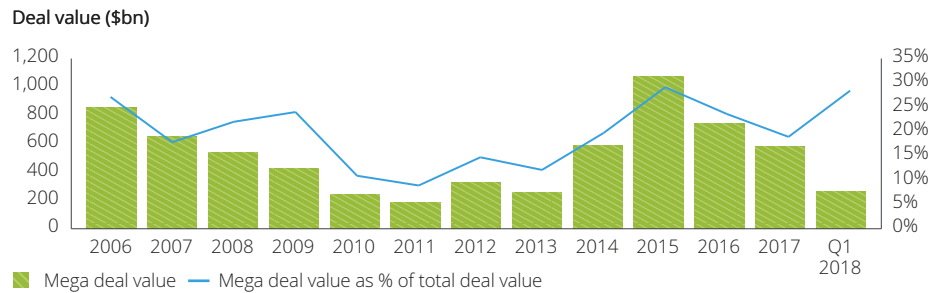


Figure 2. M&A deal multiples by region

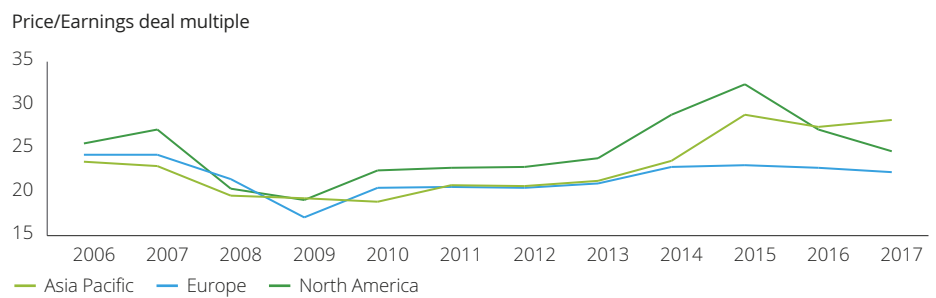
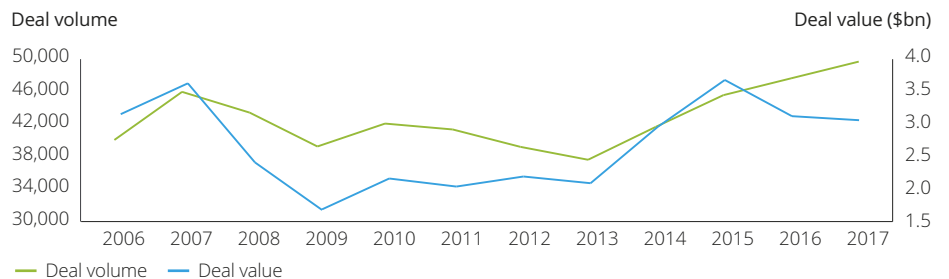


Figure 3. Global M&A volume and value



A number of major European nations have held elections recently, with a rise in populism and uncertainty around polls in the UK, Germany, France and Italy. Then there is Brexit, a seismic change for an entire continent and one in which essential trade details remain unresolved.

For M&A, the run of large deals early this year, and the volume growth of 2017, are undeniable. The question is how sustainable they are. The pick-up in spending has been partly powered by an era of cheap credit and pumped up liquidity.¹⁵ While fears around an incoming credit crunch may be overstated,

as in spite of high yield bond exits,¹⁶ the alternative lending markets continue to hold up well, with rising direct lending and collateralised loan obligations continuing to replace loans where banks are no longer keen or able to assist.¹⁷

In North American deals, we see PE multiples (price compared to earnings) reducing from a 2015 peak but they are still elevated, at around 25 times earnings. Europe remained steady last year at 22, but Asia-Pacific deal multiples continue to rise, to a high 28 times earnings.¹⁸

M&A Prediction H1 2018

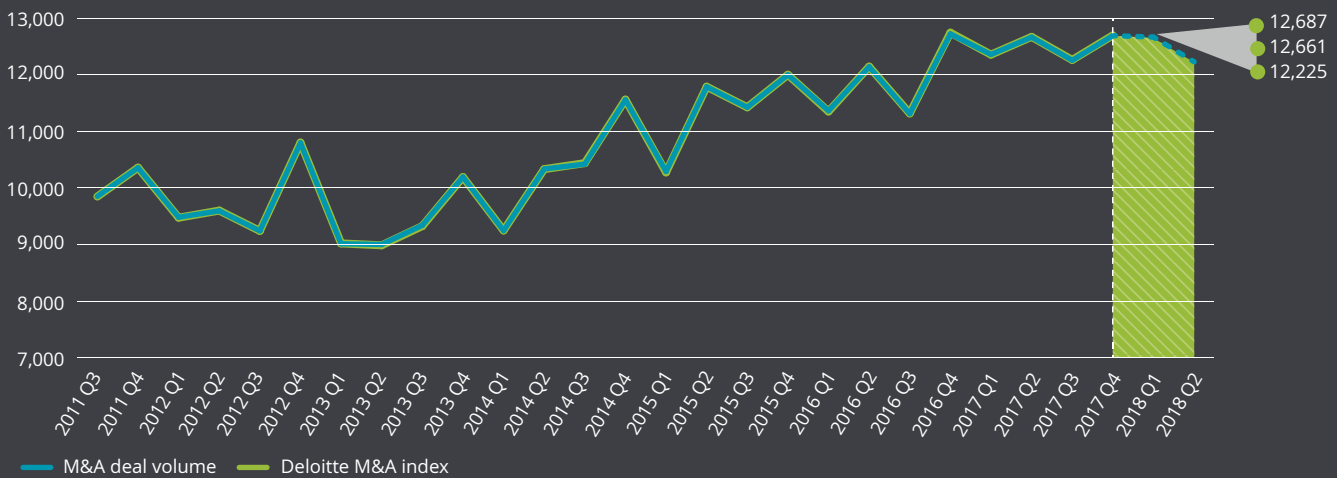
The Deloitte M&A Index model predicts a modest decline in volumes in the first half of 2018. Overall, volumes have held up reasonably well and are just one percent down compared with H1 2017. However, on an LTM (last-twelve-months) basis, deal volumes have been stabilised since the second half of 2017.

The challenges of quick integration and clean divestments also continue to be a concern for M&A professionals,

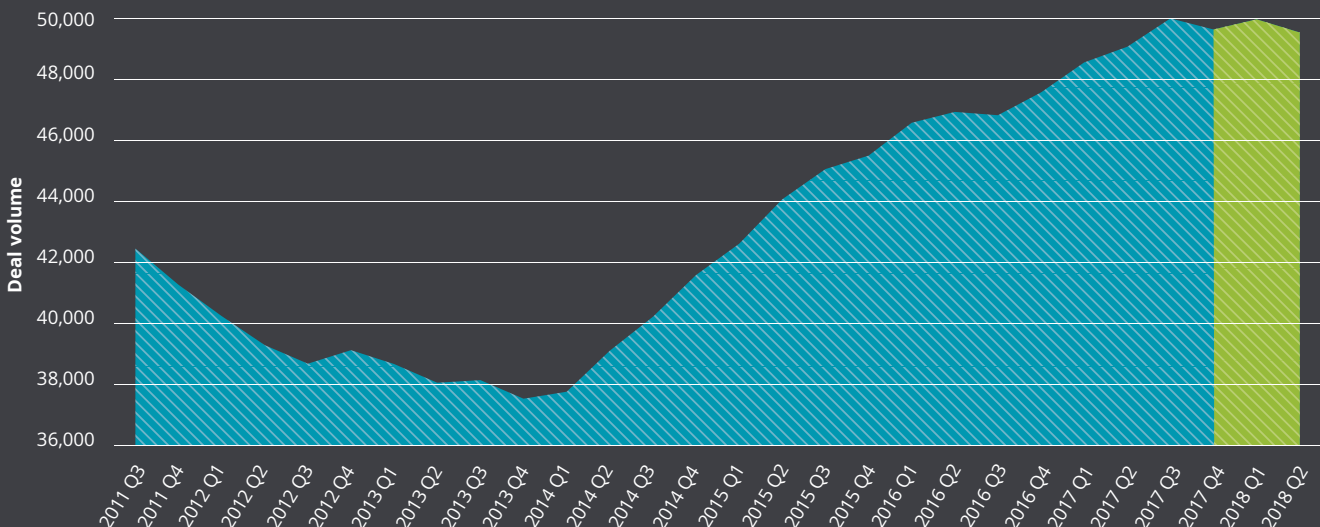
and the steadily increasing regulatory involvement in sensitive asset deals can reduce the prospect of completion.²⁰ We expect that more sensitive deals could take considerably longer than was the case previously, due to increased regulatory scrutiny. Businesses will need to focus extraordinary levels of attention on optimally managing operations, finance and governance during a handover.²²

We are undoubtedly at a crucial juncture for M&A worldwide. It is clear that there are unmissable incentives to press ahead with the right acquisitions and divestments. We expect significant activity throughout 2018.

Figure 4. M&A Index Model Prediction



Global LTM deal volumes



Divestments on the rise





Divestments

Divestment activities are a major driver of M&A activity since 2014. Last year it hit \$472 billion, one of the highest since 2007. In a recent Deloitte divestment survey, 70% of businesses surveyed as part of that report said they expect to make at least one divestment in the next two years. Nevertheless, over half of firms anticipate divestments becoming more difficult as uncertainty rises and buyers demand more complex data on what they are purchasing.³²

Europe saw significant scale of divestments in 2017, with a total value of \$169.2 billion, followed by North America, which saw deals worth a total of \$159.2 billion. We are expecting divestments among some large French, Brazilian and Australian corporates, German automotive firms, and British consumer goods companies, as well as across US financial, telecoms and media companies.

Activist investors – typically large funds representing a significant shareholding in a company – will play an enlarged role in divestments. Their influence is growing, with their committed capital more than doubling between in a year to \$62 billion.³³ Over 21% of businesses say they divest assets as a result of shareholder pressure.³⁴ Some 37% of activist campaigns target M&A or divestment,³⁵ with much pressure in the industrial, technology, energy and resources and consumer sectors.³⁶

A fifth of divestments directly result from regulatory pressure – often after large acquisitions prompt scrutiny from relevant bodies, on the basis of competition concerns.³⁷

Figure 5. Divestments deal volume and value (including demerger, auction, insolvency)

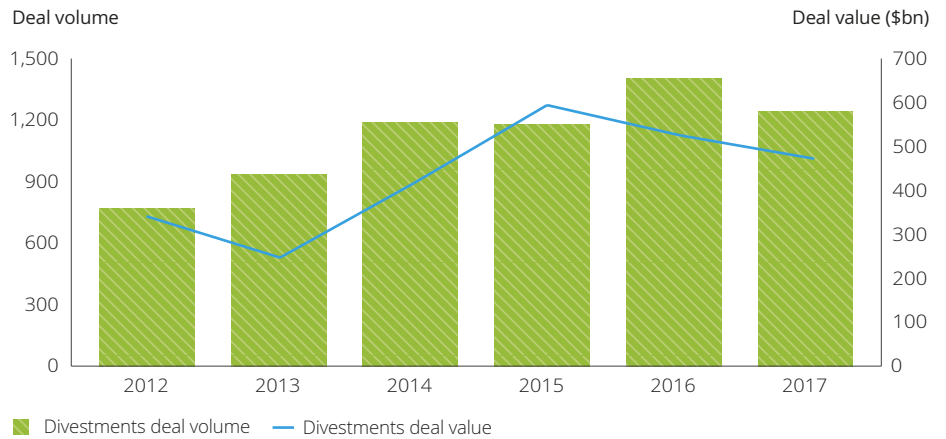


Figure 6. Divestments by target region

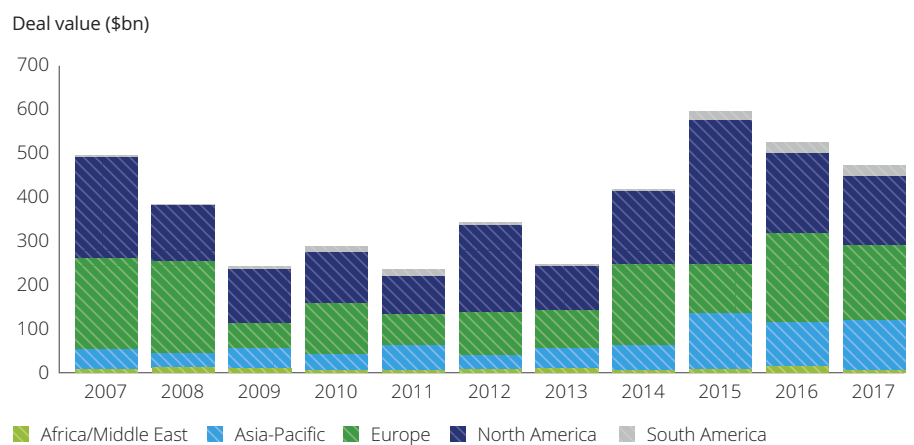
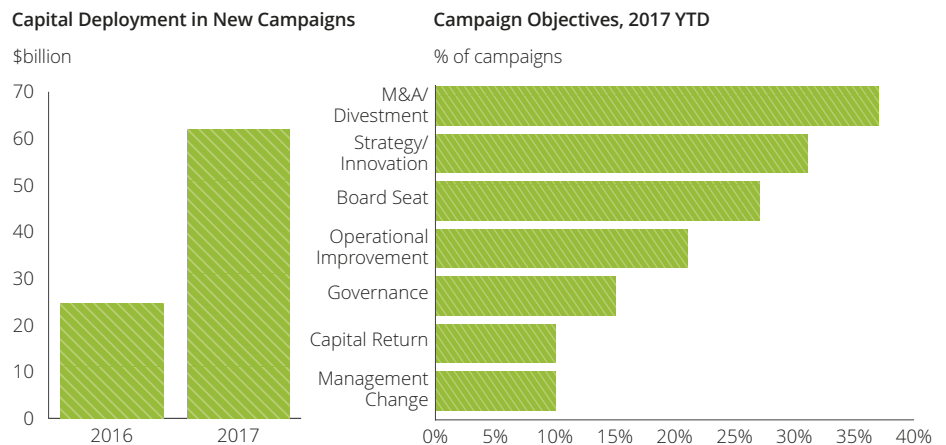


Figure 7. Shareholder Activism



Despite the potential strategic benefits, over half of businesses generally only assess their portfolios when there are performance or strategic issues at hand, and most only measure in immediate financial terms.³⁹ Over half of businesses find it challenging to complete deals, principally due to uncertain economic and business environments. Businesses will also need to closely watch how they value their operations for sale, given the difficulty of judging the standalone profitability of integrated operations.⁴⁰

Companies equally must plan ahead so that their transitional services agreements (TSAs), which steer operations during handovers, provide full coverage of the M&A process. Some 37% of firms find issues relating to TSAs – which typically last up to 12 months – the biggest problem after closing, with related costs underestimated in over a third of cases. They can overcome these problems by identifying important functions that need added support through the life of a TSA, by providing sufficient detail about options in separation planning, and by structuring sales agreements to increase the incentive for the buyer to promptly integrate.⁴¹

For sellers, robust planning, strong leadership, and speed will be essential – especially when firms make the mistake of excessively diverting attention away from running an asset during the final months before divestment.⁴² With seven in ten sellers concerned about employee morale, 59% worried about customers and nearly half fearing excessive complexity, getting divestment right is a challenge, and very often a vital part of preparing confidently and effectively for the future.⁴³

Figure 8a. Deloitte survey of professionals from global organisations recently involved in divestment activity – How would you characterise what has motivated divestment activity at your organization?

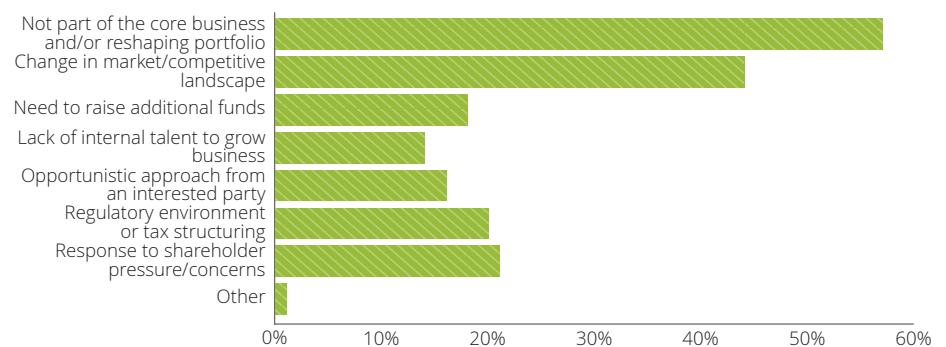
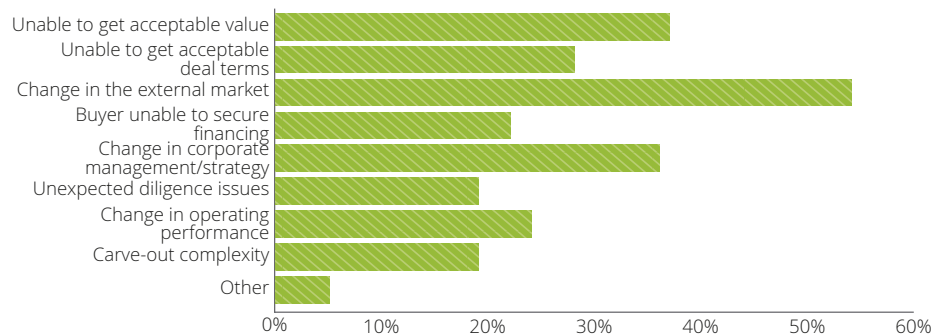


Figure 8b. Deloitte survey of professionals from global organisations recently involved in divestment activity – What do you consider are the main drivers that will make divestments difficult to complete this year? (2017)



Activist investors will play an enlarged role in divestments, some 37% of activist campaigns target M&A or divestment.

Return of Private Equity



Private Equity

The Private Equity (PE) market has grown substantially and the deal value in 2017 was the highest since the financial crisis hit over a decade ago. PE deals totalled \$467 billion, a 28% growth year on year and a high 15% of total M&A value.

The PE sector will emerge as one of the driving forces in M&A this year. The first quarter has already seen a 24% leap in deal value to \$116 billion. There is a step change in how the PE sector is looking to create value and they are looking beyond cost synergies towards technology induced transformation to help their portfolio take advantage of the disruptive innovation opportunities in digital, robotics and others.

With PE houses holding an estimated nearly \$1 trillion worth of unallocated capital,²⁵ managers will need to more rapidly invest their substantial funds in valuable deals, while simultaneously taking responsibility for conducting proper due diligence.²⁶

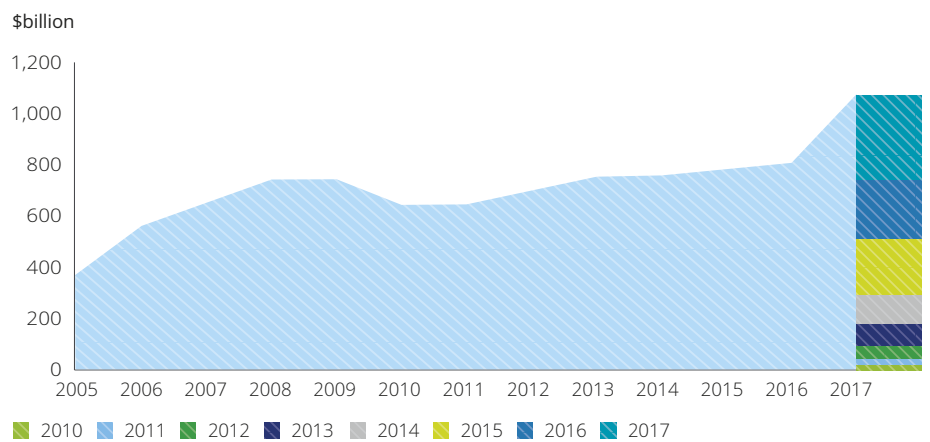
Also, given the scale of dry powder, competition for the right assets is stiffening, driving up prices and deal multiples – leading 88% of investors to be concerned about valuations.²⁷ This will heighten the pressure on managers to be sure they are selecting opportunities with deep growth potential.

As the market matures, PE firms will increasingly examine adjacent areas of investment. Some funds, particularly in the US, will expand the scope of their core activities, for example by augmenting infrastructure with real estate, or adding energy funds and financial service sector investments.

Figure 9. Private equity deal value



Figure 10. PE Dry Powder by Vintage Year



A new trend, exhibited by some US firms, has seen more PE houses creating permanent capital funds,²⁹ which look at 20-year investment time frames rather than the typical 10-year timeframes. This longer investment cycle means there is much more time to implement structural changes within acquired or merged businesses, so as to better maximise potential value, and other firms will likely need to consider this model for future growth.

Alongside large PE deals, there will also likely be a strong continuation of classic low mid-market and mid-market deals across sectors. These include firms picking up specific operations that other companies are keen to divest, and turning them into much more profitable entities. There will remain huge competition in this area, as PE continues high activity in picking up the divested operations of businesses ranging from telecoms and insurance firms to oil giants.

We expect a continued focus by PE houses in the technology, media and telecoms (TMT) sector, with TMT investment worth \$99 billion during 2017, the leading PE sector by value, ahead of consumer business where \$86 billion was invested. Real estate grew dramatically, with the rise to \$73 billion worth of deals marking the highest annual value since 2006, substantially accounted for by high activity in real estate investment trusts (REITs) given high payouts and potential tax favourability.³⁰ Meanwhile, PE activity in financial services, at \$62 billion, and in life sciences and healthcare, at \$33 billion, was those sectors' highest since 2008, as confidence and new opportunities returned. There is likely to be continued high investment levels in industrials, and energy and resources, after three years of growth in each.

Deal corridors between the US and Europe remain strong in private equity contexts and we expect this to be maintained. Increasingly, in addition to the traditional US funds operating in Europe, we will see those without a European presence flying in and sealing deals more opportunistically, while others open offices there. Meanwhile, some European funds will establish operations in the US - not only to deploy capital but also to support their portfolio companies as they target expansion. In Japan, a combination of corporate governance reforms,³¹ underperforming large corporates looking for extra profitability through divestments and older family business owners seeking sales, is prompting fast PE investment growth and drove a 542% increase last year.

Figure 11. PE deal value by sector in \$bn (2017)

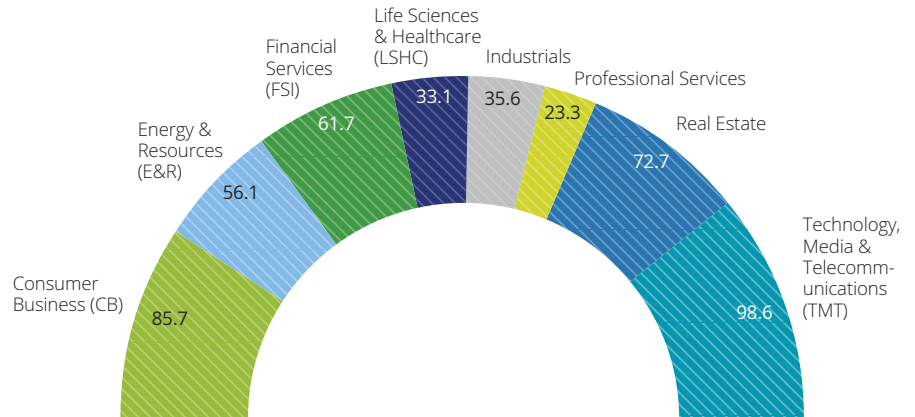
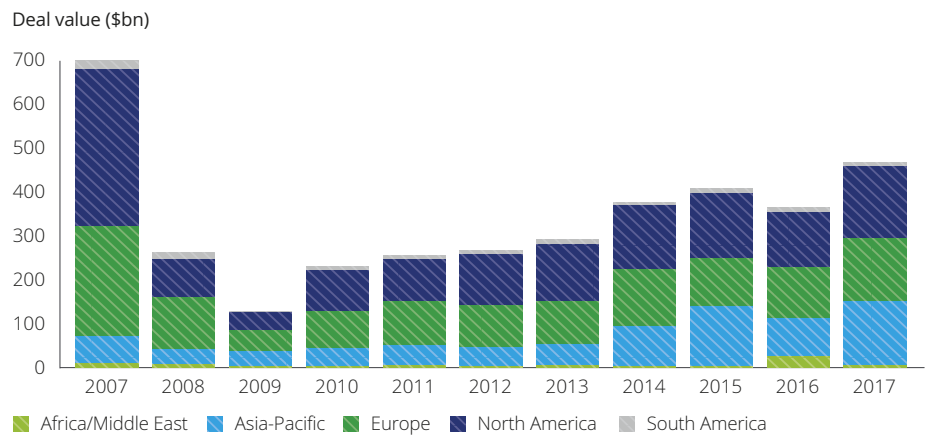
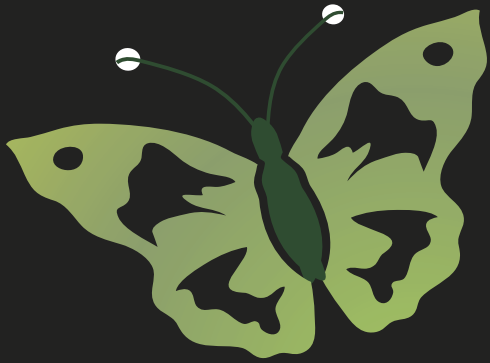


Figure 12. PE deal value by target region



PE sector is looking to create value and they are looking beyond cost synergies towards technology induced transformation.

Impact of US tax reform on M&A



US Tax Reforms

In December 2017, US Congress overhauled US tax laws. These changes will have an important effect on any M&A transaction involving businesses in the US. However, the complexity of the changes means there is no single impact applicable to all firms or industries. The changes will have myriad effects on how deals are structured, valued and financed, and they enlarge the necessary scope of due diligence.⁴⁴

Key changes include a substantial cut to overall corporate tax rates from 35% to 21%. According to Deloitte's survey of US M&A professionals, tax rate reduction is likely to have the most impact on the company's M&A strategy.⁴⁵ In addition, there is a cut to the tax applied to repatriated earnings, which will work by applying a substantially reduced charge to earnings brought back from overseas. There is also an important change to the expensing of capital assets, and a limit on debt interest deductions from taxable profits.⁴⁶

Of course, companies may also split some of the proceeds between share buybacks and dividends, with some estimates suggesting that buybacks could jump by up to 50%. But we expect M&A to be among the big beneficiaries.⁴⁷ We note that the tax holiday introduced by the Bush administration in 2004 prompted both M&A and buybacks.

An obvious driver of the latest reforms is the incentive to repatriate cash to the US. This is likely to raise significant amounts of money within America – given that its rated non-financial corporations hold around \$1.4 trillion of their total cash and liquid investments offshore⁴⁸ – and therefore may tip the balance in favour of more US domestic acquisitions.

Figure 13. Overseas cash held by rated non-financial US companies

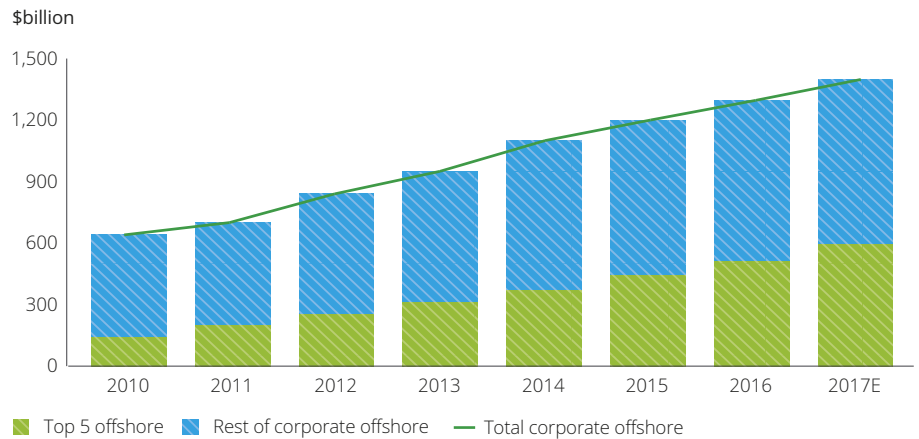
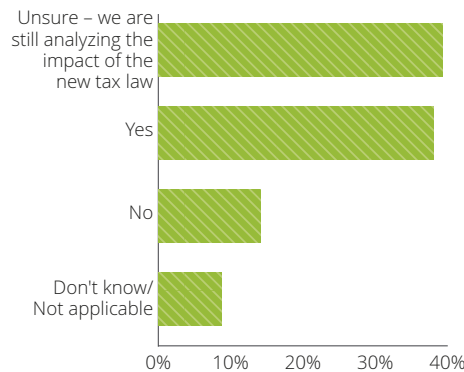
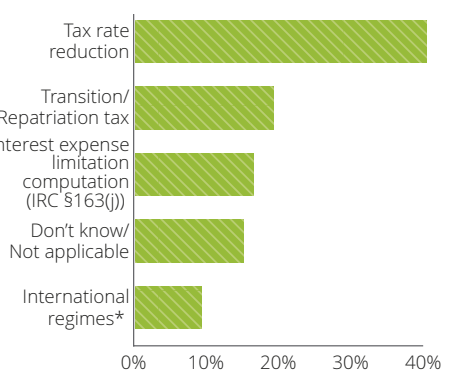


Figure 14. Deloitte Poll of M&A professionals

Will the tax law changes increase target company valuations/multiples?



Which tax provision will have the greatest impact on your organisation's M&A strategy?



* (Global Intangible Low-Taxed Income (GILTI) and Base Erosion and Anti-Abuse Tax (BEAT))

A major effect will be on divestments, as companies look to siphon off less profitable or non-core activities. Lower taxation on capital gains will make it easier for companies to sell assets at lower cost. We expect divestment processes to be encouraged and accelerated as a result.

The changes to expenses on capital assets could also lead to more M&A in industries including manufacturing, as until 2023 dealmakers will be able to immediately expense their many asset purchases against tax.

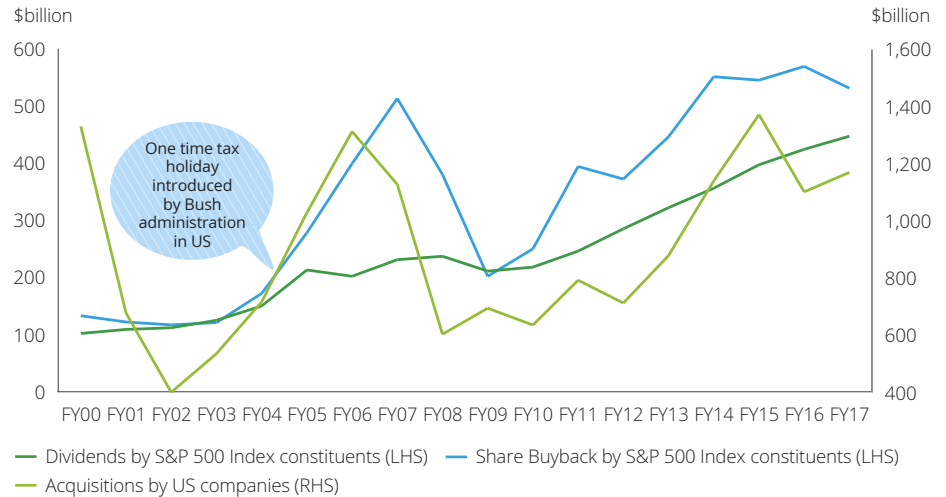
Previously, asset-heavy transactions had a tougher tax experience. A Wharton school study shows mining, a heavy user of shorter term equipment, will benefit most as its average tax bill more than halves to 7%. Other sectors expected to benefit most include, accommodation, retail, finance, construction and manufacturing.⁴⁹

Importantly, the increased cash flow among US companies could make them more attractive for takeover. But as a result of the annual savings for those corporates, the businesses could also cost more to buy, a view held by 38% of M&A professionals in a recent Deloitte poll.⁵⁰

Cash rich companies will likely have an advantage over those buying with large debt. The limits on interest rate deductibility will make highly leveraged transactions – such as those of private equity firms – significantly more expensive in comparison.⁵¹

Private equity firms and any leveraged companies face new questions, with debt heavy sectors, potentially set to be most affected. Previously, companies had been generally unrestricted in the amount of interest (paid by their targets on debt) that they could deduct from tax, but that is changing to 30% of a modified EBITDA through 2021 and 30% of a modified EBIT thereafter. Ratings agency Moody's estimates that over a third of leveraged buyouts could be affected. However, the cuts to headline and capital tax do somewhat offset these deductibility problems.⁵² In an attempt to tackle any concerns here, a fifth of M&A

Figure 15. Dividends and Share Buyback of S&P 500 Index constituents vs Acquisitions by US companies



professionals surveyed by Deloitte expect to pursue alternative financing options, such as preferred or convertible instruments – this will become an essential consideration for handling leveraged situations in the US.⁵³

No matter which element of reform has the greatest impact, it is clear that the effect of the tax changes will be a complicated issue. Companies must invest significant time and resources into modelling the impact of the changes. It is of course possible that the

sheer complexity of the reforms will lead to a pause on cross-border investment plans for some businesses.⁵⁴ Modelling projected effective tax rates, particularly for multinationals, is set to become more detailed, even where overseas operations are modest in scale. Getting it right will be essential for a great many businesses in their day-to-day operations and the success of their M&A strategies.

According to Deloitte's survey of US M&A professionals, tax rate reduction is likely to have the most impact on the company's M&A strategy.



Disruption is fuelling M&A investments

Disruptive M&A

Rise of Disruptive M&A

Deloitte analysis shows companies are using M&A as a strategic expedient to capture disruptive innovation growth opportunities. Nearly a third of the S&P 1200 constituent companies have engaged in disruptive M&A deals or venture investments. Such deals are done with the primary purpose of acquiring capabilities or technologies across disruptive innovation categories such as Fintech, AI, Robotics, Cyber Security and others.

Globally, companies spent around **\$634 billion** during **2015-17** on disruptive innovation-related M&A deals. We estimate 32% of such deals fell in \$50mn-\$1bn range. While technology companies often lead the way, many other sectors, such as consumer businesses, telecoms, financial services and the service sector, have also become active deal-makers. Our analysis of S&P 1200 companies shows that since the last two years, the non-tech constituents have been acquiring technology assets. In 2017, nearly 60% of disruptive-tech acquisitions were done by non-tech companies.

Promise of corporate venturing

Corporate venturing has emerged as a fundamental part of the corporate innovation strategy, providing companies with an important conduit into the external innovation ecosystem. Beyond financial returns, these investments provide invaluable access to new technologies, business models and talent, all crucial to growth through innovation.

Figure 16a. Global Innovation M&A activity (2017) (\$bn)

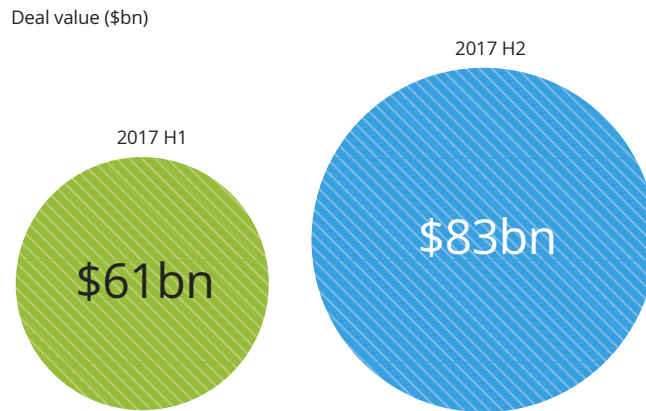
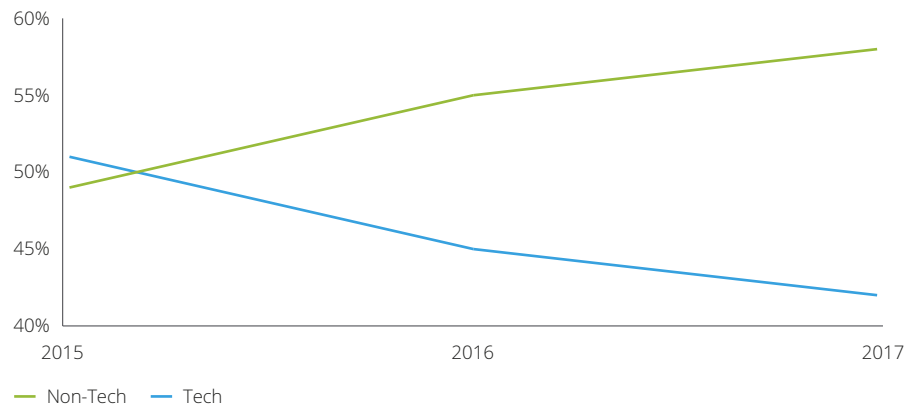


Figure 16b. S&P Global 1200 non-tech constituents acquiring more technology assets



In 2017, there was a steep rise in corporate venture investments and nearly \$49 billion was invested. Overall during **2015-17** corporate venture capital (CVC) funds made **\$130 billion** in investments, which is around **34 per cent** of the total investments made by venture capital funds. The majority of the investments were in Series A to C funding rounds and, as some of these start-ups scaled up, the corporate sector often acquired these companies.

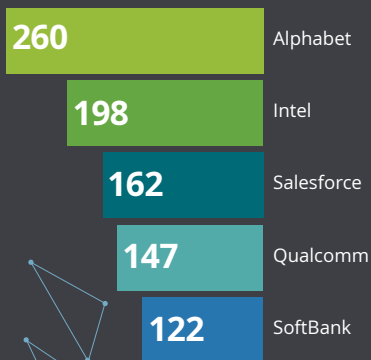
Corporate venturing itself is undergoing a steep change. Funds are exploring new models, such as co-investing with both traditional competitors and adjacent sector companies, with the aim of pooling resources and creating consumer and market offerings.

Disruption in numbers

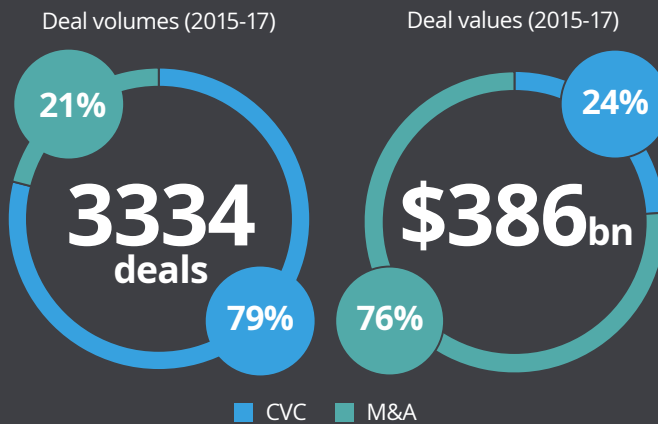
S&P Global 1200 companies



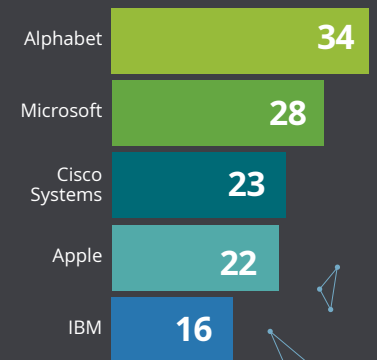
Active S&P Global 1200 Investors (2015-2017), (by number of investments)



Total S&P Global 1200 companies' disruptive M&A and CVC activity (2015-2017)



Active S&P Global 1200 Acquirers (2015-17) (by deal volume)



20%

of S&P Global 1200 companies have **active startup investment vehicle**



\$32bn

funds committed by the S&P Global 1200 companies during 2015-17

\$5.2bn

value of dry powder of S&P Global 1200 companies



13

of the top 25 S&P Global 1200 companies (by 2017 revenues) have an active **Startup investment vehicle**

\$175m

average funds raised by the S&P Global 1200 companies during 2015-17

17%

of the M&A deals announced by the S&P Global 1200 companies during 2015-17 is related to **disruption**



Didi Chuxing (\$19.8bn)
SNAP (\$1.8bn)
Grail (\$1.2bn)



SNAP (\$3.4bn)
Jet (\$3.3bn)
Aruba Networks (\$3bn)

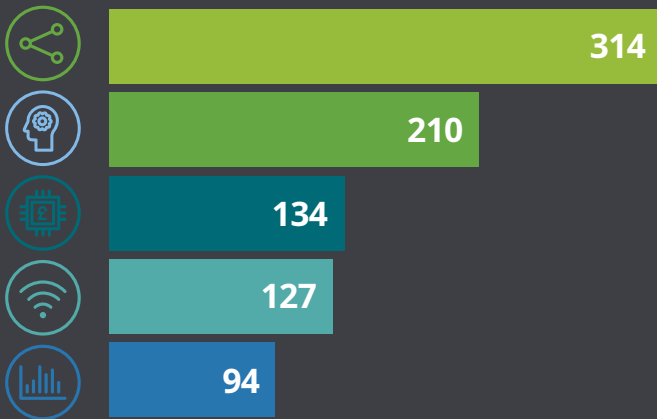


Softbank - ARM (\$32bn)
Microsoft - LinkedIn (\$29bn)
Intel - Mobileye (\$15bn)

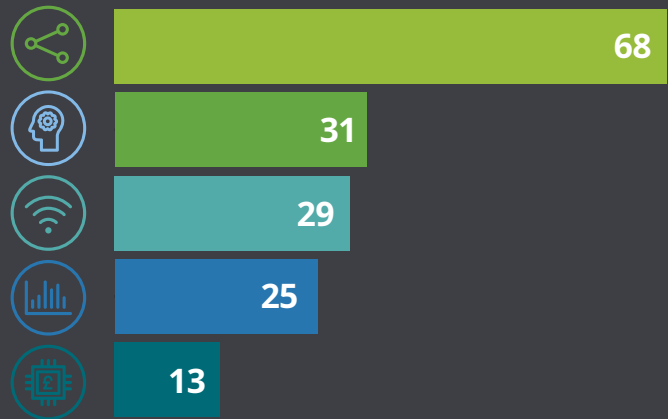


Softbank - ARM (\$32bn)
Amazon - Whole Foods Market (\$13.4bn)
Verizon - Yahoo (\$4.5bn)

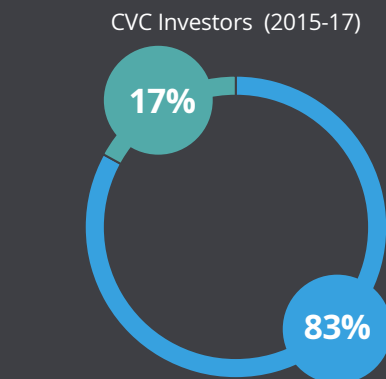
Top verticals by CVC Investments (2015-17)
(Number of investments)



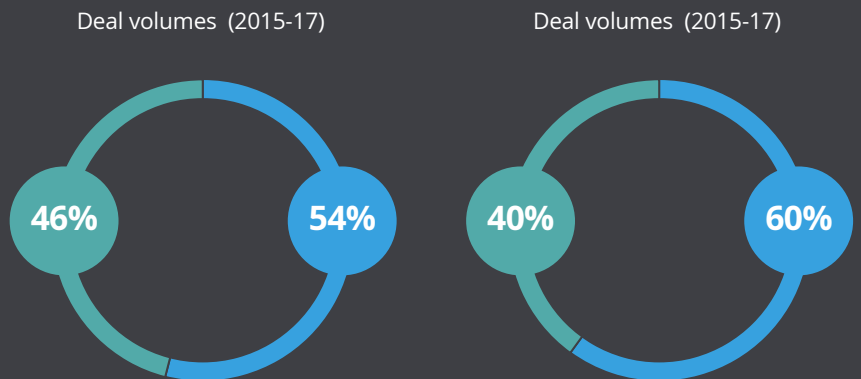
Top verticals by M&A volumes (2015-17)



S&P Global 1200 CVC (Tech vs Non-Tech), by number of participating investors



S&P Global 1200 disruptive M&A (Tech vs Non-Tech)



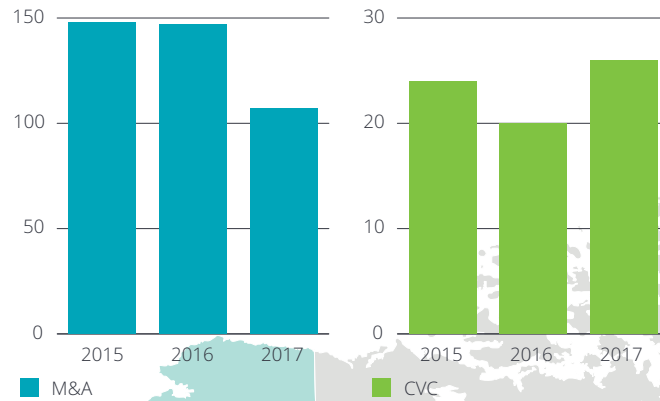
■ Tech ■ Non-Tech



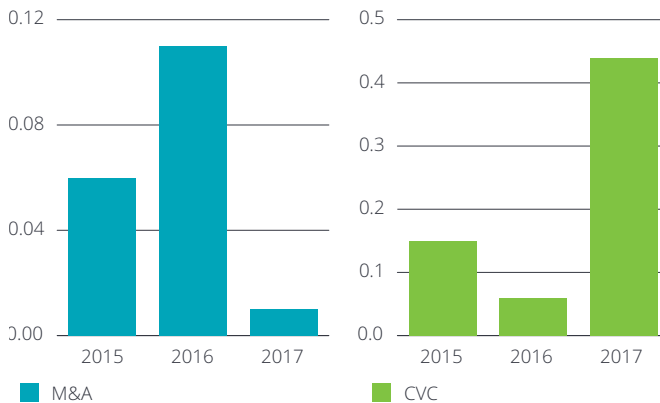
Innovation hotspots

The trends in M&A and CVC point towards the emergence of global innovation hotspots – US, Israel, UK, France, Germany, India, China and Japan – that account for the lion’s share of corporate investments in innovation. There was a sharp increase in corporate venture fund investments rising from \$40 billion in 2016 to \$49 billion in 2017.

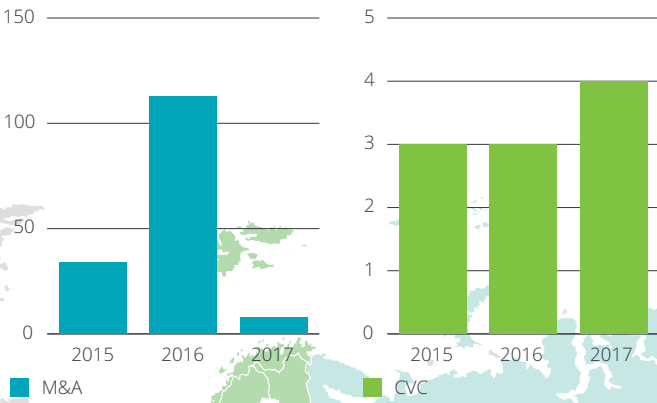
US deal values (\$bn)



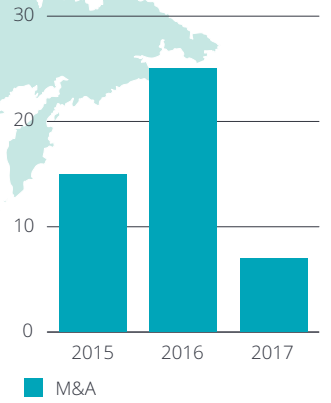
South America deal values (\$bn)



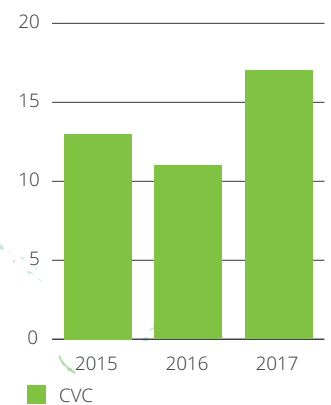
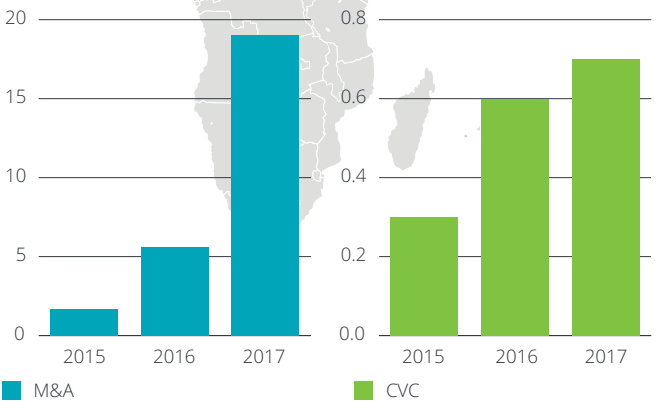
Europe deal values (\$bn)



Asia deal values (\$bn)



Israel deal values (\$bn)



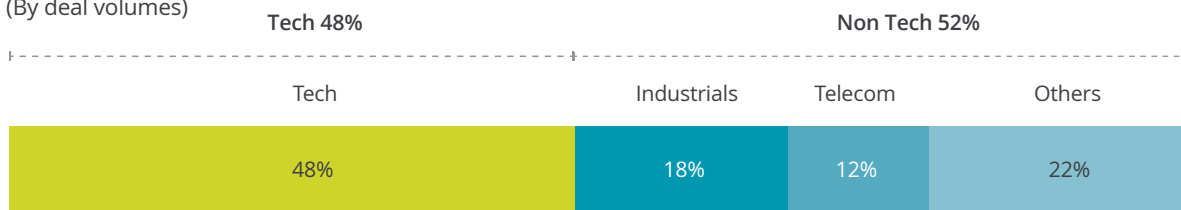


Internet of Things

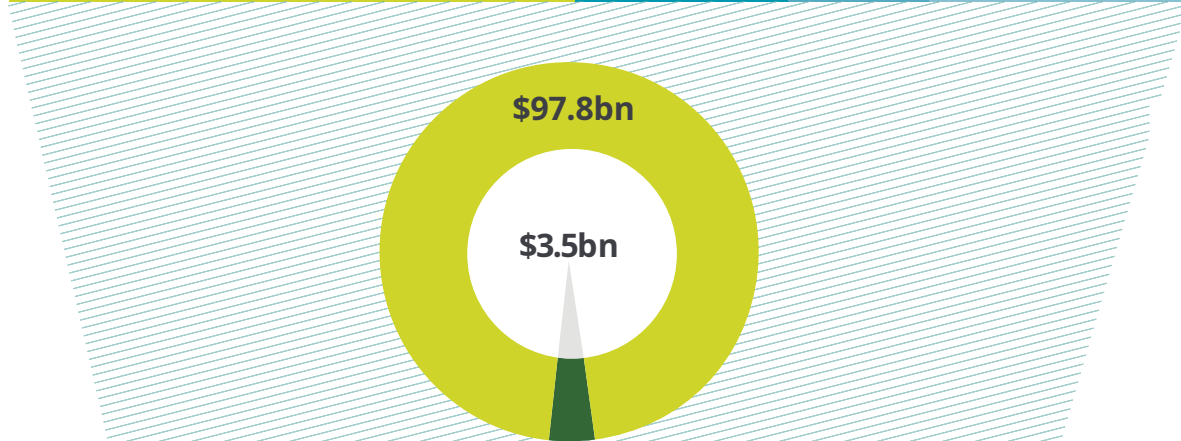
The Internet of Things (IoT) is about making intelligent digitally-enabled and connected products. The falling costs of key infrastructure and the proliferation of consumer and enterprise user applications have proven a catalyst.

During **2015-17**, companies announced **\$98 billion** worth of M&A deals in this segment. IoT also attracted **\$3.5 billion** in CVC investments, spread across all the major sectors. Such investments point towards a burgeoning IoT ecosystem that includes wearables, sensors, infrastructure and smart products across many sectors, including smart utilities, connected home, industrial IoT, connected health and automobiles.

M&A by Sector (By deal volumes)

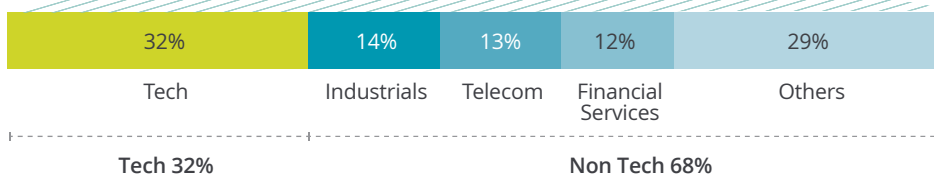


130
deals



■ M&A deals
■ CVC deals

CVC by Sector (By no. of participating investors)



256
deals

Amazon acquired Ring, maker of smart home doorbells, cameras, and security systems

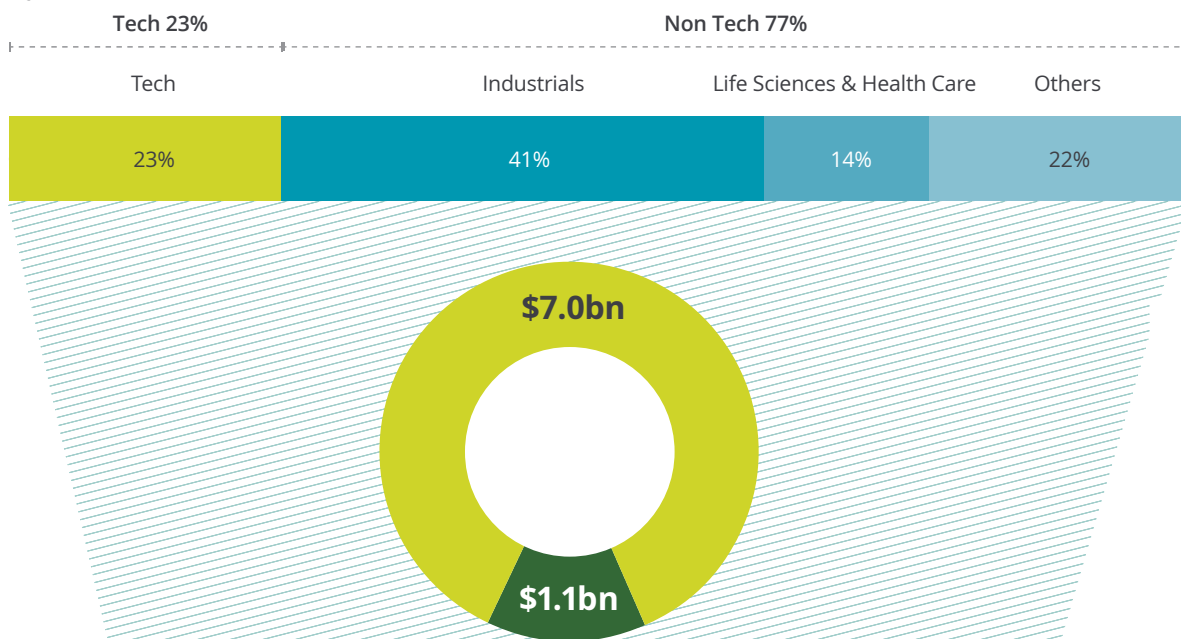


Robotics and Drones

Significant advances in new materials, computing and battery power as well as the rapid growth in both industrial and consumer applications is stimulating investment in robotics. These investments range from industrial automation and drones to service process automation.

The robotics segment received nearly **\$7 billion** worth of M&A investments, seven times more than the **\$1 billion** corporate venture investments in this segment. M&A was dominated by technology and industrials. Corporate venture investments in this segment came from a range of non-tech sectors, such as industrials, media and consumer business.

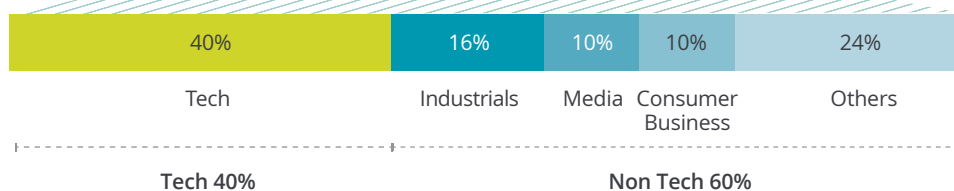
M&A by Sector
(By deal volumes)



64
deals

M&A deals
CVC deals

CVC by Sector
(By no. of participating investors)



95
deals

Boeing acquired Aurora Flight Sciences, developer and manufacturer of advanced aerospace platforms and autonomous drone systems

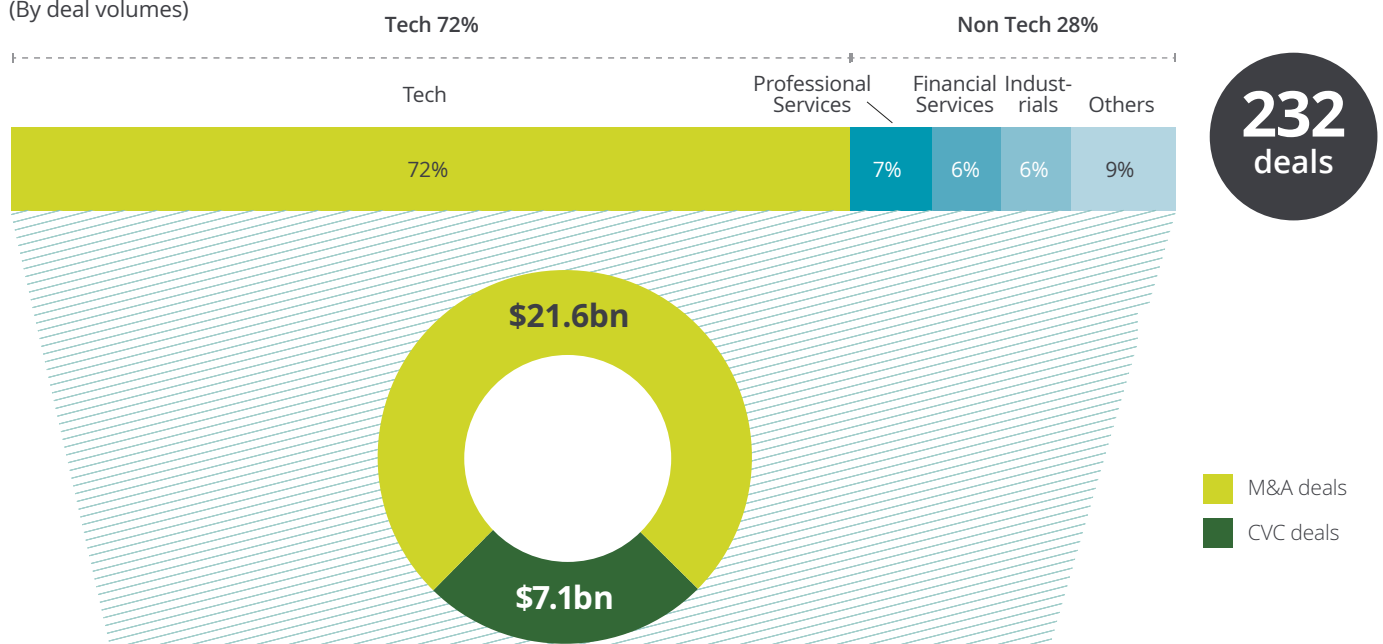


Artificial Intelligence and Cognitive Technologies

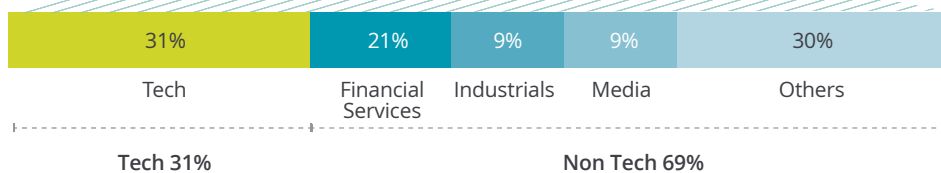
The confluence of advances in deep-learning algorithms, chip manufacturing technologies and cognitive computing have spurred investments in AI which is on the cusp of a revolution in applications in both the consumer and enterprise segments. Investment in AI and cognitive technologies includes machine learning, recognition technologies, advanced chip manufacturing and cognitive computing.

There were **\$22 billion** worth of M&A deals during **2015-2017** in this segment, dominated by acquisitions from the technology sector. Corporate venture investments have started to accelerate and **\$7 billion** worth were made, with most from non-tech sectors such as financial services and media.

M&A by Sector
(By deal volumes)



CVC by Sector
(By no. of participating investors)



443 deals

Deere & Company acquired Blue River Technology, a startup that has developed integrated computer vision and machine learning technology for agricultural purposes

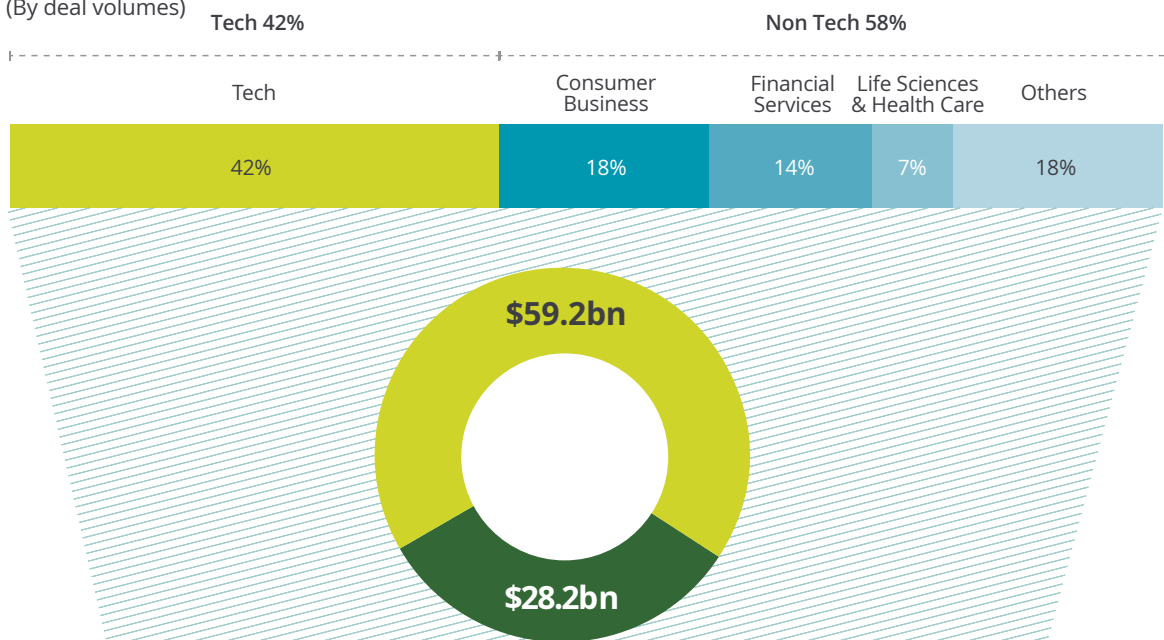


Digital and Social

The digitisation of industries is leading to the development of cross channel digital and social business models and investments in new segments such as Digital Commerce, Digital Agencies and On-demand Subscription Business Models.

In the last three years nearly **1289 M&A deals** were done and **\$59 billion** invested in this segment, primarily by the technology, consumer business, financial services and life sciences and healthcare sectors. Corporate venture investments in the digital and social segments have risen to **\$28 billion** since 2015 and are dominated by the technology, financial services, media and life sciences and healthcare sectors.

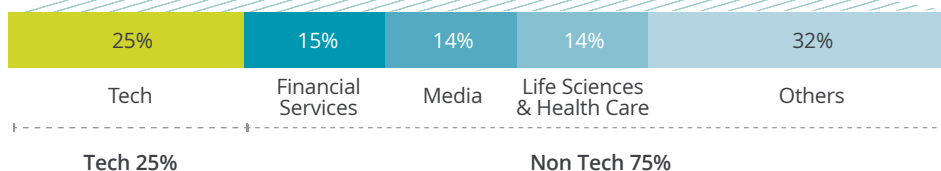
M&A by Sector (By deal volumes)



1,289
deals

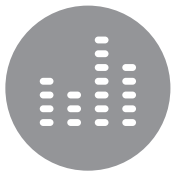
M&A deals
CVC deals

CVC by Sector (By no. of participating investors)



848
deals

WeWork acquired digital marketing startup Conductor to diversify its business model outside renting office space

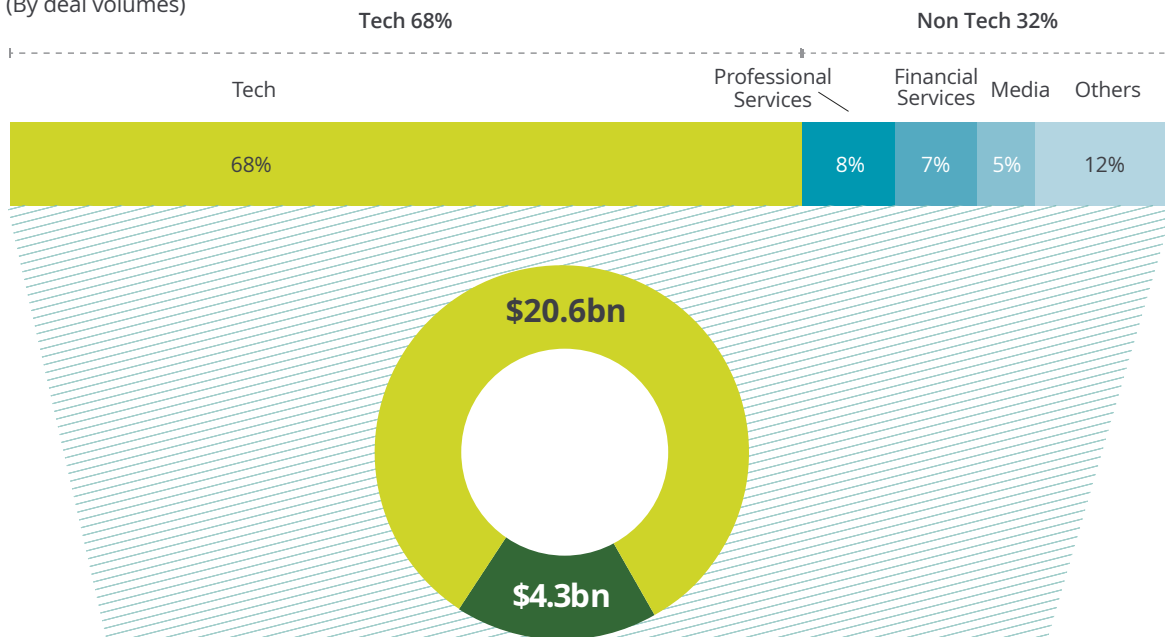


Big Data, Analytics and Cyber Security

Companies have been investing heavily to harness the potential of Big Data as advances in sensing applications provide practical business insights and applications. In recent years the key areas of investments include cloud-based analytics, enterprise software, cyber-security, risk and cognitive analytics.

Since 2015 around **\$21 billion** worth of M&A deals have been done in this segment, dominated by the technology sector. CVC investment is much more fragmented and companies across all major sectors are investing in this segment. Collectively they have made **\$4.3 billion** worth of investments.

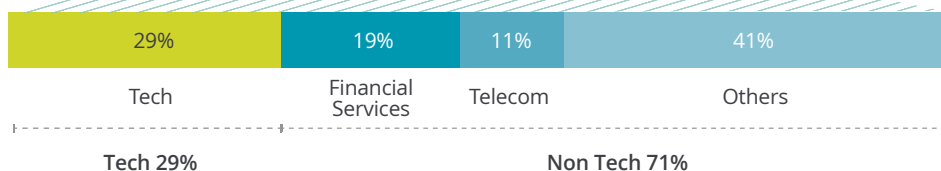
M&A by Sector
(By deal volumes)



165
deals

M&A deals
CVC deals

CVC by Sector
(By no. of participating investors)



208
deals

Continental AG acquired Israeli startup Argus Cyber Security to strengthen its capabilities in automotive cybersecurity

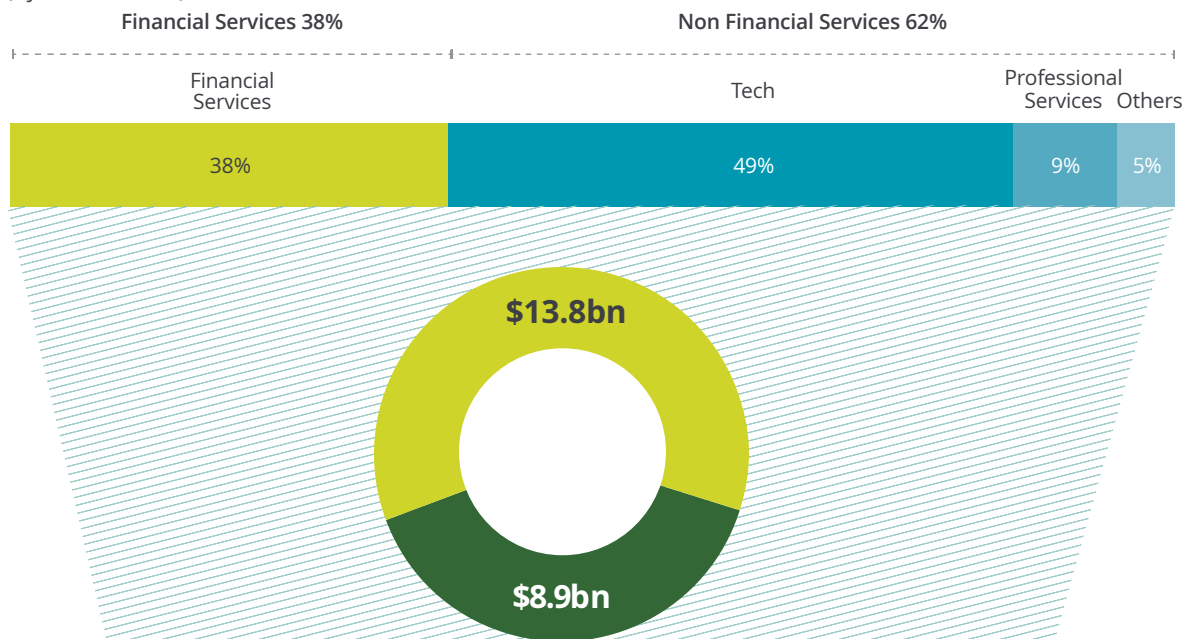


Fintech

The wide range of opportunities presented by Fintech means there has been significant growth in investment from non-financial service sectors such as telecoms, retail and media.

Since 2015 around **\$14 billion** worth of M&A deals have been done in this segment. Over the same period around **\$9 billion** worth of CVC investments were made, led by financial services but also from technology, telecoms and media. Investments in blockchain and payments technologies started to take off in 2016. There were also investments in predictive analytics, quantitative trading analytics, risk analytics and robo-advice.

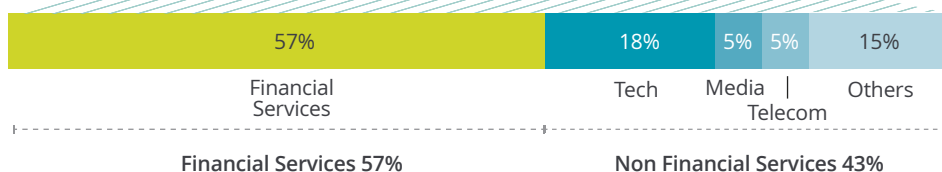
M&A by Sector (By deal volumes)



296
deals

M&A deals
CVC deals

CVC by Sector (By no. of participating investors)



333
deals

JP Morgan Chase acquired WePay, a payments startup, to provide payment solutions to its 4 million small business clients

Harnessing convergence opportunities through M&A and venturing

How M&A and CVC investments are shaping convergence across sectors

The confluence of technological change, changing customer preferences and an evolving regulatory landscape are reshaping how products and services are developed, delivered and consumed. This is blurring the lines between sectors, creating opportunities for non-traditional competitors to enter with new consumer offerings.

- **Future of Finance:** Disruptive innovation technologies from crypto-currencies to predictive analytics and robotics, are transforming financial services. This is creating opportunities for other sectors, such as retail, telecoms, technology and services, to acquire and invest in Fintech start-ups and develop new cross-sector offerings.
- **Future of Health:** Digital technologies are set to revolutionise future healthcare and in the process allow for new business models and marketplaces to emerge at the intersection of technology, health and consumers. As a result sectors such as consumer products, retail, insurance and others are using M&A and CVC to invest in innovative start-ups.
- **Future of Consumers:** The confluence of innovations in cognitive technologies, digital, data analytics and social media-oriented business models is redefining companies' engagement with consumers. This is creating new opportunities for sectors such as technology, health, finance and others. Companies are using M&A and venturing to explore and commercialise these opportunities.

- **Future of Industrials:** Technological breakthroughs such as additive manufacturing and advanced materials, in combination with changes in consumer demand and the economics of supply chains, are enabling the manufacturing sector to undergo a transformation not seen since the days of the industrial revolution. Companies are using M&A and venturing strategically to transform themselves and capture new opportunities.

- **Future of Mobility:** Technological advances are transforming the global auto industry. Personal mobility is being redefined. This has implications for telecoms, insurers, health, energy companies, payment providers and more. A new ecosystem is developing at the cusp of automotive and other sectors. Companies are using M&A and CVC to develop new market offerings and tap into the full potential of these shifts.

Innovation-led growth opportunities through M&A and venturing

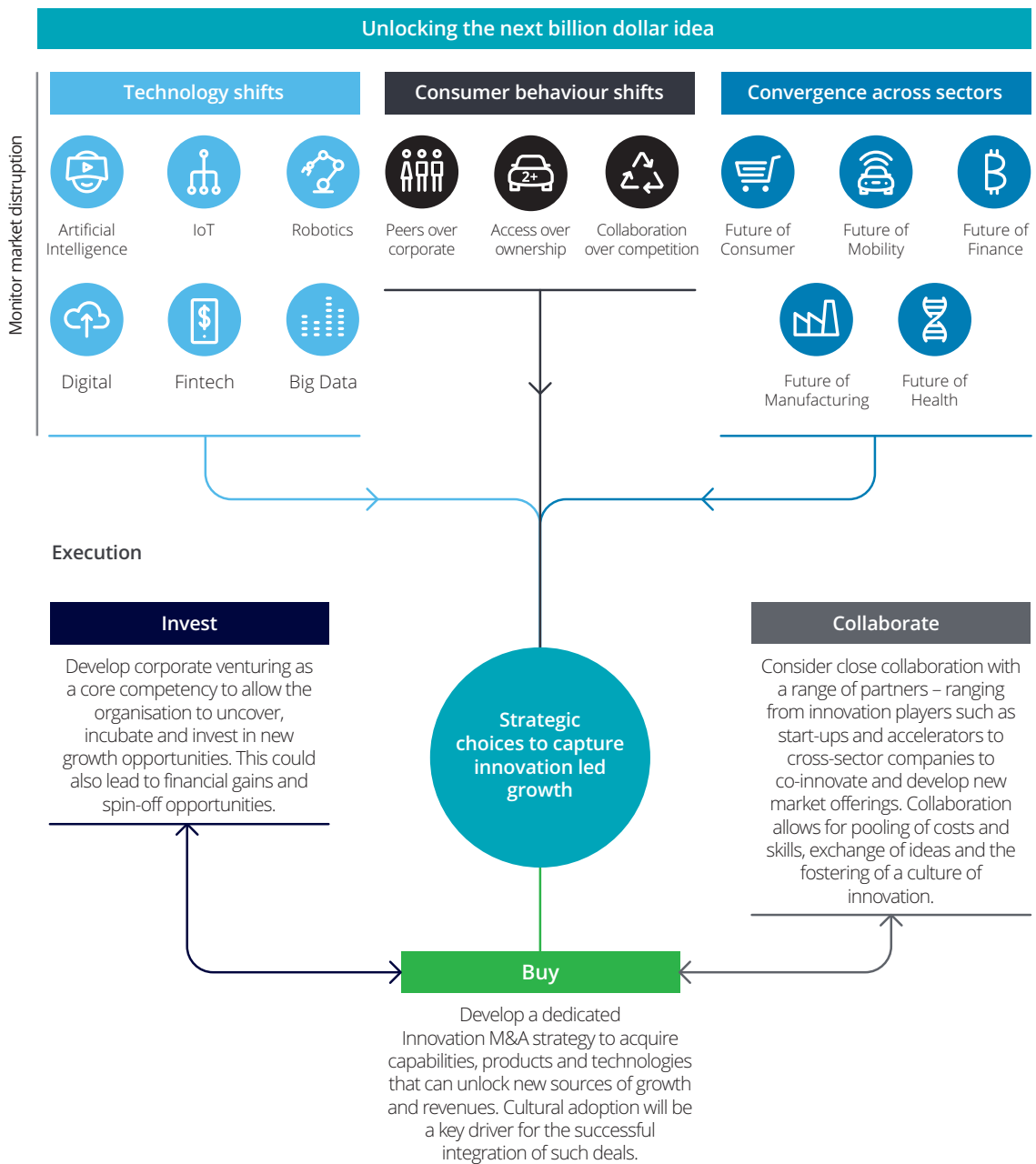
1. **Align strategies to maximise impact**
It is crucial companies develop clarity on the role that external innovation can play in helping them achieve their strategic ambitions. Innovation M&A and corporate venture strategies should closely mirror the long-term strategic goals, so that there is clarity of purpose and sharing of objectives on both sides.
2. **Demonstrate commitment**
Once companies choose a course of action, it is important they remain committed for a period of time to signal their intent to current and future targets and partners.

3. **Develop a competency to monitor signals and shifts.**
As part of their M&A and venturing strategies, it is crucial that companies develop a competency to monitor signals in not just technology shifts, but also shifts in consumer behavior and market activities in adjacent sectors.
4. **Use collaboration as a business model.**
Companies should consider collaboration, not just with innovation ecosystem players, but also with other industries with a view to harnessing convergence opportunities. Convergence should also provide incentives for non-traditional competitors to co-invest in emerging technologies. Such investments minimise the risks and capital outlay while at the same time allowing for sharing of skills and expertise. In turn, this could create new consumer offerings and reshape existing markets.
5. **Use these smaller acquisitions and investments to drive cultural change**
Assimilating external innovation into company culture is perhaps the most challenging aspect of innovating for growth. Change starts at the top and leaders need to be fully committed to this strategy. M&A and CVC teams need to act as change agents to encourage adoption and inspire a culture of innovation within the corporate.



Strategic choices

Strategic choices framework



M&A outlook for regions



Deal Corridors

United States

Canada

China

United Kingdom

Germany

France

Rest of Europe

Japan

Australia

Rest of Asia

Africa and Middle East

Latin America





Deal Corridors

In 2017 around \$970 billion worth of cross-border deals were announced, representing 31.5% of total global M&A deals.

The most active deal corridor continues to be between United States and Europe. The deal corridor between United States and Europe amounted to \$207 billion in 2017, a decline of more than 50% from \$432 billion in 2016.

The UK (\$46 billion) and Japan (\$31 billion) were the most active acquirers in North America in 2017. US acquisitions into Europe declined from \$168 billion in 2016 to \$101 billion in 2017.

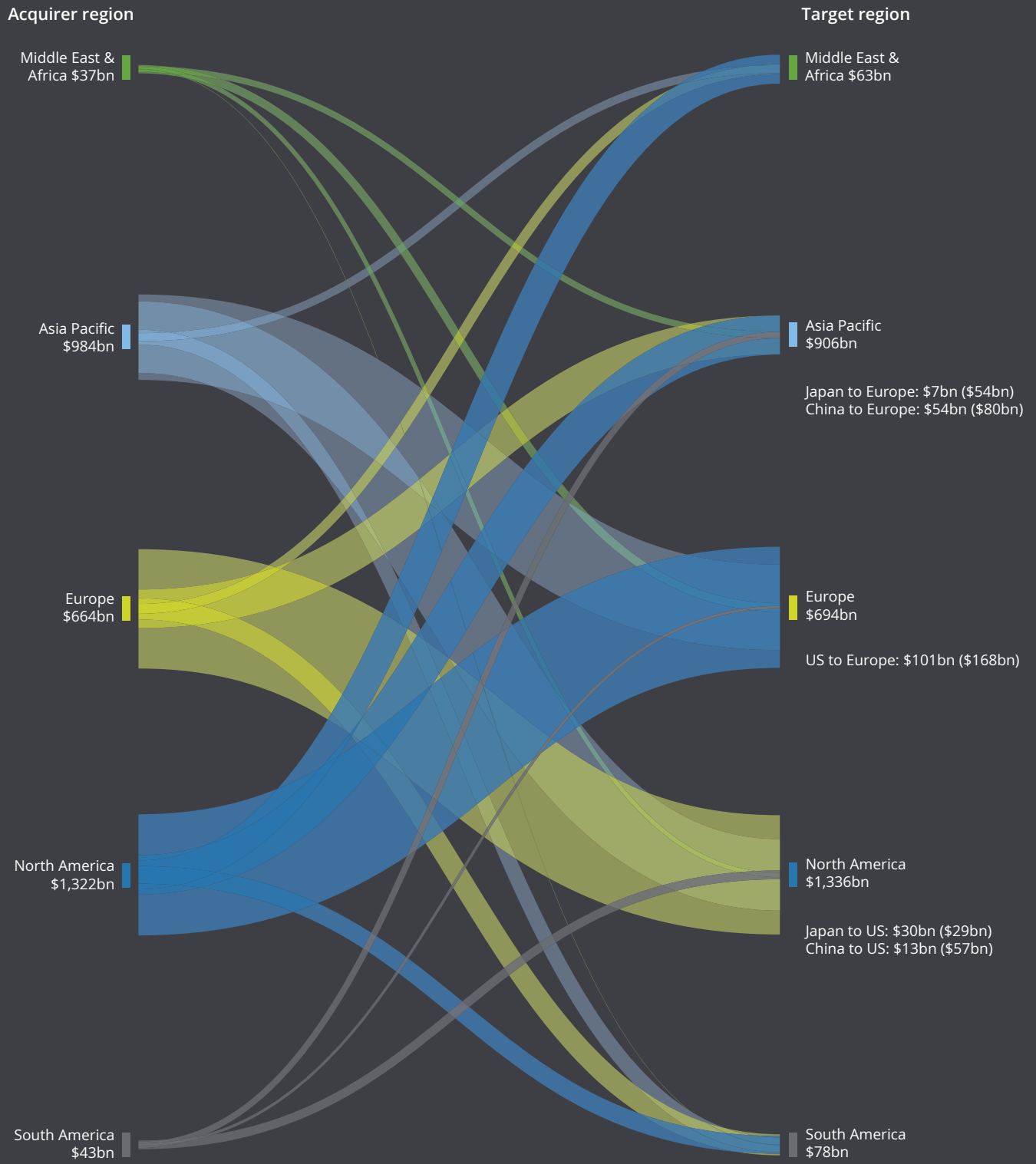
Chinese outbound deal value declined significantly from \$197 billion in 2016 to \$119 billion in 2017. Capital controls levied by the Chinese regulatory authorities and protectionist measures adopted by some of the countries with respect to Chinese acquisitions contributed to decline in Chinese outbound deal making.

Looking ahead we are expecting more of intra-regional deals. Capital controls implemented by China, protectionist measures by United States and certain countries in Europe, policy uncertainty in United States, impact of Brexit are expected to impact cross-border deal making.

Figure 17. Global cross border deal value



M&A deal value across regions in 2017 (\$bn)



Note: Figures in brackets are for 2016



United States

The US was the largest market for M&A last year worldwide, at \$1.2 trillion, and it is set to remain a powerful hub for acquisitions in 2018. This is due to a variety of interrelated factors, not least macroeconomics, tax conditions and the scale of cash held by corporations and private equity firms.

A recent survey by Deloitte highlighted that the number one planned use of a growing amount of corporate and private equity cash in the US is to drive M&A.⁵⁵ In spite of the deal corridors from Europe and Asia Pacific to the US declining by 60% and 44% respectively, US domestic M&A continued to rise, a high 97% of dealmakers expect overall deal size to grow or hold steady.⁵⁶

In general terms, US companies across a wide range of sectors are looking to M&A to harness the potential of new technology and the digital business models it powers – indeed technology is the largest American sector for acquisitions. A third of all US businesses see disruption as the top driver for M&A, and acquisitions in technology, which grew in volume by 14.6% last year, will range from small bolt on purchases to major moves. Artificial Intelligence, Cyber Security, Robotics and Automation are set to be key areas.

Before the government set its tax policy and regulatory stance last December, there had been a 52% decline in inbound deals. The new tax reforms is expected to boost M&A activity as companies pursue fresh opportunities

Figure 18. Total disclosed deal value in United States, 2013-17

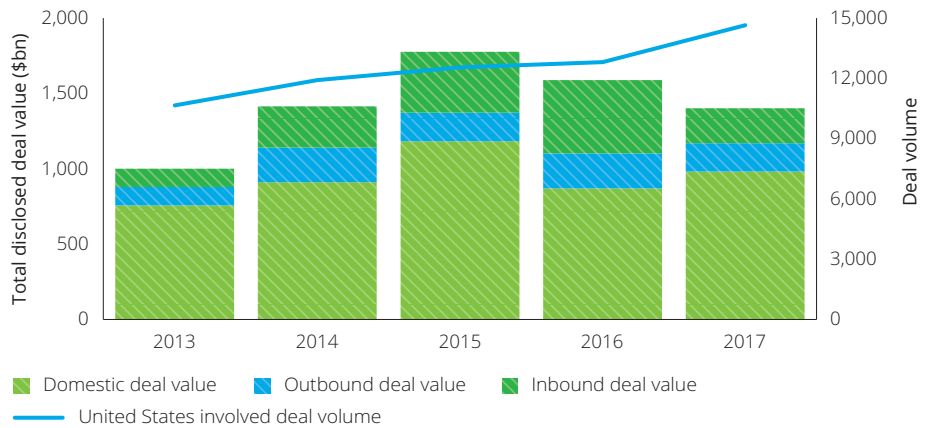


Figure 19a.

United States as a target-deal value by target sector in \$bn (2017)

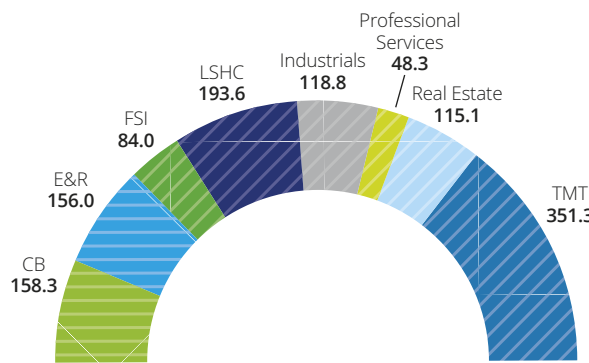
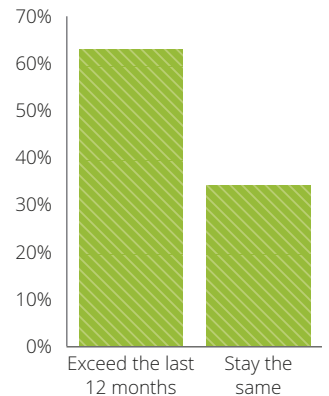


Figure 19b.

Deloitte survey of US based corporations & private equity firms: How do you anticipate the average deal size of transaction in next 12 months



However, there are some significant headwinds businesses will need to contend with. Geopolitical concerns remain, including growing tensions between the US, China and EU, amid recent moves towards

establishing trade tariffs.⁵⁹ In addition, deal multiples remain high, and this could derail some acquisitions where there is a large cash component.

Deloitte US M&A survey shows over 60% of respondents expect average deal size to increase in the next 12 months

Note:

1. Unless specified M&A figures are for deal values.
2. Unless specified the deal figures are for target region or target sector.
3. Involved deal volume is the sum of domestic deal volume, outbound deal volume and inbound deal volume.



Canada

Canadian mergers and acquisitions had a particularly strong 2017, with deal growth up 49% to a total of US\$101 billion, and volumes up 71%. However, questions abound as to whether this year will see a slowdown.

Key sectors for Canadian M&A will include energy and resources, industrials, consumer business and financial services. Energy and resources saw a sharp rise in activity, to \$49 billion, and included two particularly large deals. Oil and gas transactions were often motivated by consolidation of upstream assets, and acquisitions in the midstream and of downstream distribution.

In financial services, where \$8 billion of deals were conducted, banks are looking to expand their footprints worldwide, particularly in Latin America and the US, and they are buying into wealth management businesses while insurers too look at geographic expansion beyond Canada. Non-bank lending is also growing extensively.

Cross-border deals remain important for Canada, though there was a 32% fall in outbound deals, primarily due to fewer international acquisitions by Canadian energy and resources firms that had expanded actively into the US the previous year. There was a 5% dip in inbound deal value. On the other hand, private equity investments in the country are proving notably commonplace, particularly among those picking up divested operations to maximise their efficiencies. Asia-Pacific operators are also among those investing consistently in Canada, with a particular focus on construction and engineering, and Chinese firms more than doubled their activity year-on-year to \$5.4 billion.

A key concern is the threat to NAFTA, the free trade arrangement between the US, Canada and Mexico. US President Donald Trump has threatened to withdraw the U.S. from the agreement, calling it a "bad deal"⁶¹ for America, and warned of tariffs

Figure 20. Total disclosed deal value in Canada, 2013-17

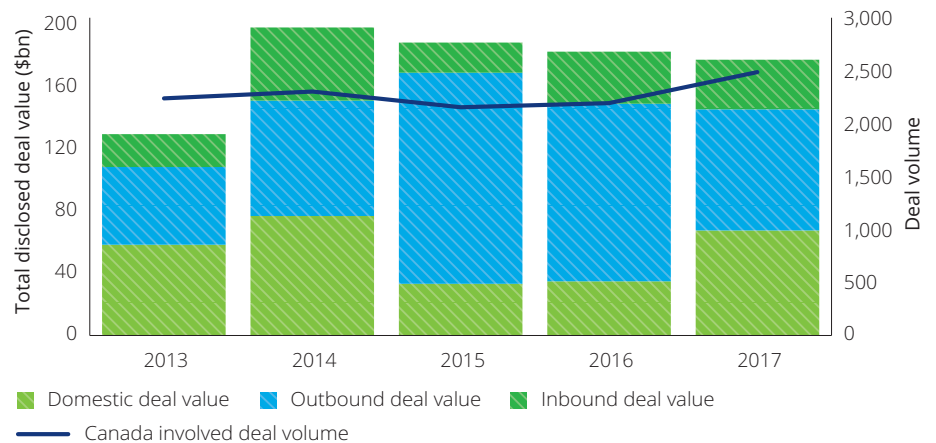
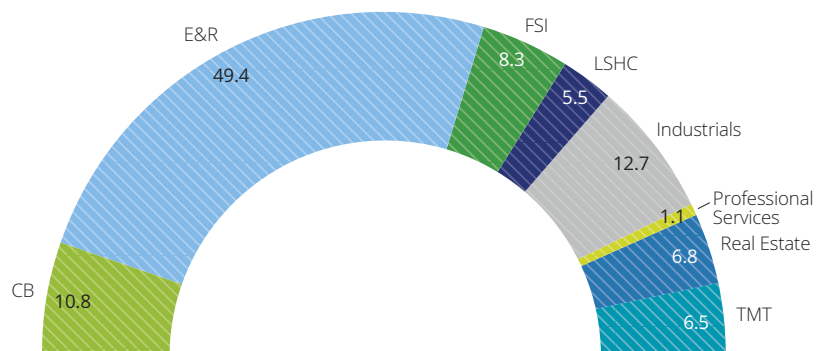


Figure 21. Canada as target – Deal value by sector in \$bn (2017)



unless it is renegotiated. The impact of an end to NAFTA would be hugely significant for Canada and for trade throughout North America, making buying and selling costly, and it could lead to US and Canadian companies attempting to acquire more production capabilities in each other's markets.

A key concern for Canadian businesses is the political threat to NAFTA



China

Deal corridors into and out of China are expected to change dramatically. Regulatory pressures from Chinese authorities – and from the countries in which their firms are buying prized assets – have already seen a 40% fall in outbound investment last year, down to \$119 billion. The trend is worsening, with the first quarter of this year plummeting 54% in value.

As a result, we expect a proliferation of smaller deals involving Chinese M&A outside China. These moves will be motivated by disruption, with companies keen to grow expertise and capabilities through acquisitions of businesses with niche knowledge in important technological growth areas, including artificial intelligence, robotics and electric vehicles. These smaller deals could be followed up by much larger acquisitions, in sectors favoured by authorities.

Private equity firms are ever more active in China, with their overall M&A value in the country up by 62% last year, though the fast-souring government approach to debt could change how many turns of leverage they feel safe to apply.

China's huge 'Belt and Road' initiative to create a number of large trading routes with neighboring countries, is driving business activity in the construction sector, and we expect this will motivate domestic and international M&A as new opportunities emerge.

Figure 22a. Total disclosed deal value in China, 2013-17

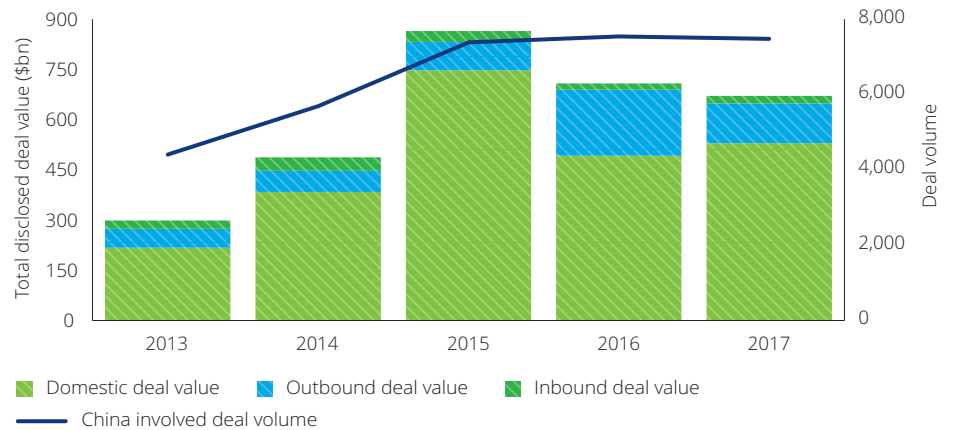


Figure 22b. China as target – Deal value by target sector in \$bn (2017)

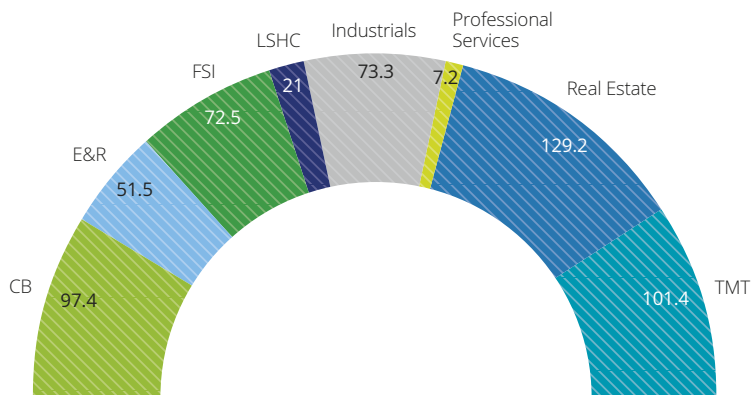
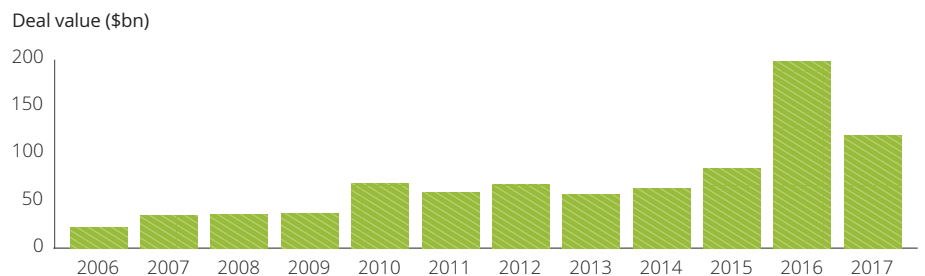


Figure 22c. China outbound deal value



Private Equity firms are ever more active in China, with their overall M&A value in the country up by 62% last year.



United Kingdom

Deal volumes remain buoyant in the UK, even as the country contends with a seismic change in the form of its exit from the European Union. The country trails only the US and China in terms of value and volume of deals, and is the second most targeted nation, behind the US, with \$103 billion of inbound acquisitions last year. Activity remains bolstered by real estate, consumer business, and financial services, as well as technology – in spite of that sector’s fall in UK deal values last year.

Uncertainty around Brexit is generally not deterring businesses from driving forward with M&A, given the strategy’s potential long term benefits. With chief financial officers seeing Brexit as their biggest risk, companies may even make acquisitions specifically to mitigate the dangers and access new markets.⁶⁶ These steps could be taken by top UK sectors such as financial services where questions remain over defining what kind of structure the future UK-EU relationship will resemble, following any prospective transition period that may take place pending respective parliament ratifications.

Indeed, UK firms remain the fourth highest outbound acquirers by value, at \$99 billion last year. But while concerns prevail around trade agreements, the clear co-dependency between the UK and EU in many sectors could serve to keep EU-UK deal corridors active. While the US-UK route remains of high political importance, it almost halved to \$76 billion in 2017, a year that saw immense political change and more inward gazing in America.

Chinese businesses were the UK’s largest investor at \$22 billion last year – with sterling weakness making inbound deals more attractive.

Figure 23. Total disclosed deal value in United Kingdom, 2013-17

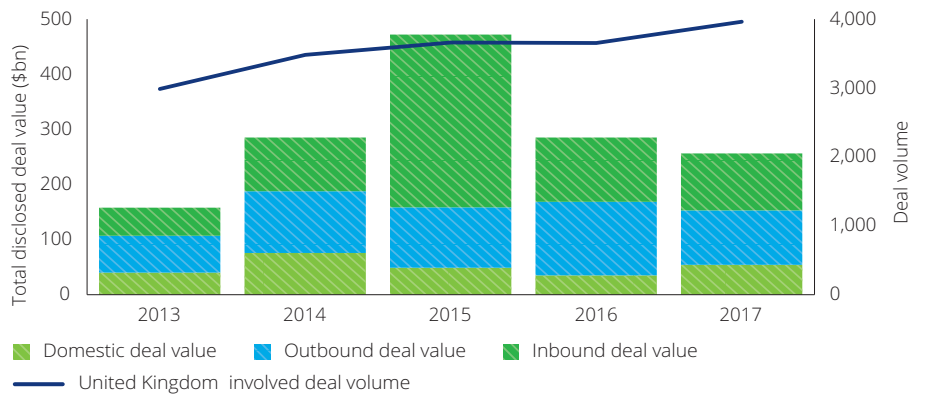


Figure 24a.

UK as target – Deal value by target sector in \$bn (2017)

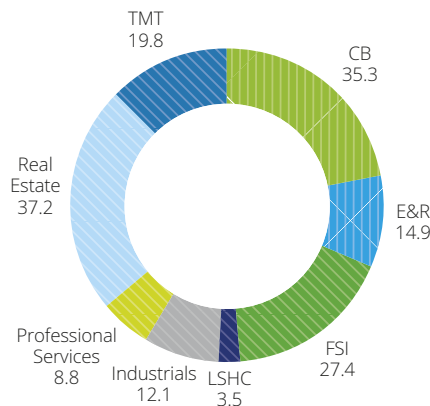
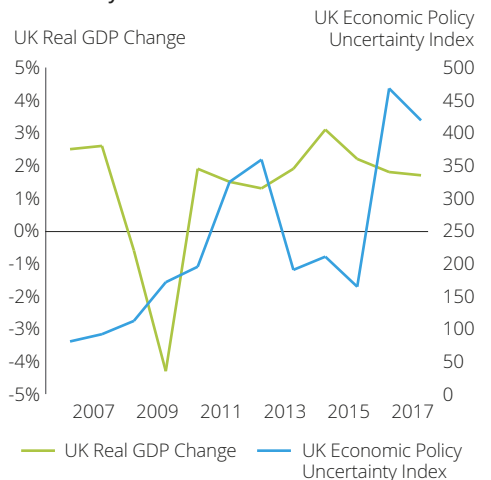


Figure 24b.

UK Real GDP Change vs UK Economic Policy Uncertainty Index



The well-established British startup environment will remain a good place for smaller and young technology companies to grow and flourish, and companies worldwide will examine these firms for potential M&A opportunities.⁶⁷ Last year saw US and European firms acquire British digital businesses ranging from music search, to travel and fitness.⁶⁸ Meanwhile, creative industries continue to develop very strong British businesses of potential interest to investors.⁶⁹

Companies in the UK will increasingly focus on smaller and more digestible acquisitions that provide a specific capability and methodically deliver on promised returns. Much activity will be modular, aimed at adding technological or disruptive capabilities.

With CFOs telling us that Brexit is their biggest risk, companies may make acquisitions specifically to mitigate the risks and maintain access to markets.



Germany

The Eurozone's biggest market, Germany, saw a 30% decrease in inbound deal value last year to \$57 billion, and a 67% decrease in outbound deals, during a tough year of national elections and challenges in forming a coalition government. But we have strong expectations for M&A there this year, given that German business sentiment remains highly positive according to several surveys,⁷⁰ as economic growth continues.

The M&A focus will be driven by transformation and technological innovation, and a significant area will be disruption in the automotive sector,⁷¹ Germany's largest industry. Suppliers of combustion engines and power trains, for example, are looking to modernise their businesses and we expect to gradually see divestments of assets that have less potential. There will also be a renewed focus on activities in new arenas such as electric and connected cars.

Germany's industrial sector witnessed \$34 billion of M&A last year. We expect the chemicals industry will likely see growth in deal volume, due largely to internal market disruption and the strong capital position of companies in the field. In financial services, further bank consolidation is expected, as regional organisations will become attractive targets and insurance firms will be increasingly picked up by private equity firms seeking high growth.

Some of the corporate agreements across sectors will continue to be megadeals, valued at billions of euros, driven primarily by companies going through extensive, disruptive transformations. Others will be smaller deals aimed at acquiring specific technology or capabilities, and this is where we expect volume growth.

There is expected to be a high, continued commitment by the German government

Figure 25. Total disclosed deal value in Germany, 2013-17

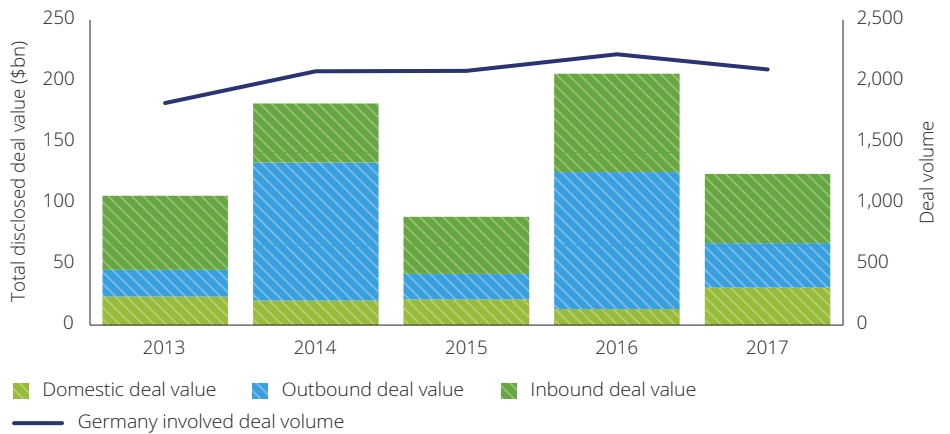
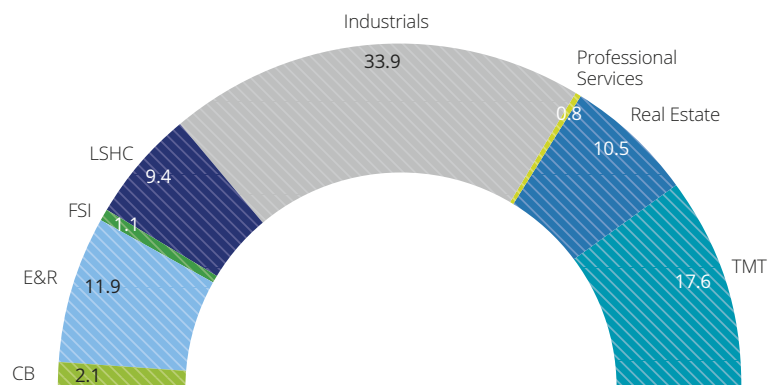


Figure 26. Germany as target – Deal value by target sector in \$bn (2017)



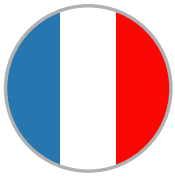
into public infrastructure projects, following the announcement of plans to invest €270 billion into repairing railways and roads,⁷² and both private equity and corporations may want to consider making acquisitions to expand presence and be able to meet these opportunities.

As with M&A globally, there has been a significant reduction in Chinese investment into Germany during the last couple of years, but it was still worth \$7.3 billion last year in spite of controls to block some Chinese

acquisitions of essential infrastructure.⁷³

We expect to see investment from the US continue to be strong, building on 2017's total of \$15.4 billion. There will be more acquisitions from Europe, as France, Finland and the UK remain major close-by investors. German companies will continue to invest outbound, with particularly high activity likely to be sustained in its established corridors to the US, UK and France.

The M&A focus will be driven by transformation and technological innovation, and a significant area will be German automotive and industrial sectors



France

France had a strong last year for M&A, with domestic deal value up 33% to \$61 billion, and high activity in consumer business, technology, media and telecoms, real estate, and industrials. The country remains the sixth largest target for inward M&A investment, bolstered by new president Emmanuel Macron’s pro-business stance.⁷⁴ French firms were also particularly active outbound, buying in Australia, Germany, Italy, the Netherlands, the UK, the US and Denmark.

This year we expect a rise in divestments, given a growing focus on consolidation among many French enterprises and as investors pressure owners for thorough portfolio reviews.

The selloffs provide significant M&A opportunities for private equity houses. These firms continue to make small and large acquisitions at strong multiples, particularly in areas such as pharmaceuticals, technology and healthcare where they see a clear track record of growth. Private equity acquisitions targeting France rose 22% last year. The growing success of PE houses in France is even resulting in those firms more regularly selling companies two years after purchase, because of the scale of gains already made.

Chinese M&A investment, now slower, is evolving from a focus on trophy assets such as French vineyards towards major companies. While Chinese companies had often been excluded from competitive bidding based on concerns over execution speed, many will now enter and sometimes win these processes. Meanwhile, French companies are set to invest across Asia in pursuit of expansion in faster growing markets.

Figure 27. Total disclosed deal value in France, 2013-17

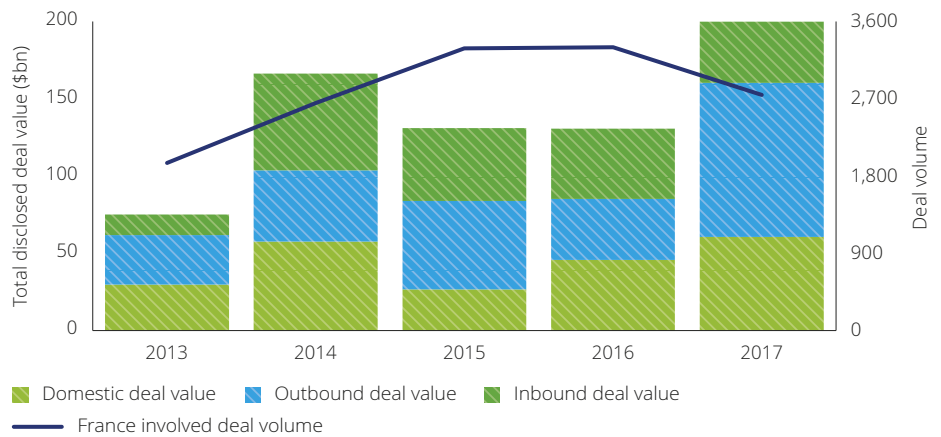
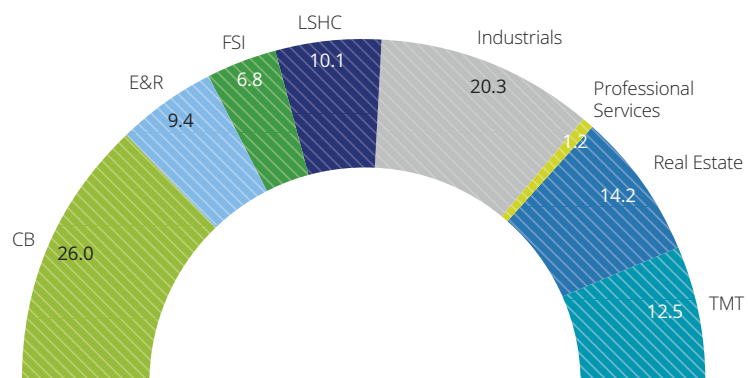


Figure 28. France as target – Deal value by target sector in \$bn (2017)



Across industries, we expect continued growth in smaller corporate technology acquisitions – aimed at bringing in new people and ideas, and at accelerating research and development, at a time when the country is pushing €1.5 billion into becoming an artificial intelligence hub.⁷⁵ This has been especially important for long established companies keen not to fall behind the curve, such as automotive firms looking at smart city technology. But sometimes, retaining staff after acquisitions has proven challenging, at least in part because of the different cultures of the acquiring firms and their targets.

The year we expect a rise in divestments, given a growing focus on consolidation among many French companies



Rest of Europe

Across the rest of Europe, there are several markets with high activity, boosted by steady Eurozone economic growth. Spain, where M&A has been dominated by consumer products activity, registered \$88 billion of transactions last year, and is the sixth largest target for M&A, behind the US, China, the UK, Canada and France, with its 155% increase in inbound transactions so notable after a slow 2016. Italy, meanwhile, is seeing some strong inbound activity from France given its geographic proximity, including a particularly large consumer products deal, driving total inbound deal value to \$35 billion. Russia saw \$30 billion of deals, supported by a large domestic bank deal and the Chinese acquisition of an oil business. The Netherlands and Denmark are also major M&A targets, boosted by significant technology, oil and pharmaceutical deals.

Across the rest of Europe, there are several markets with high activity, boosted by steady Eurozone economic growth

Figure 29. Total disclosed deal value in Europe, 2013-17

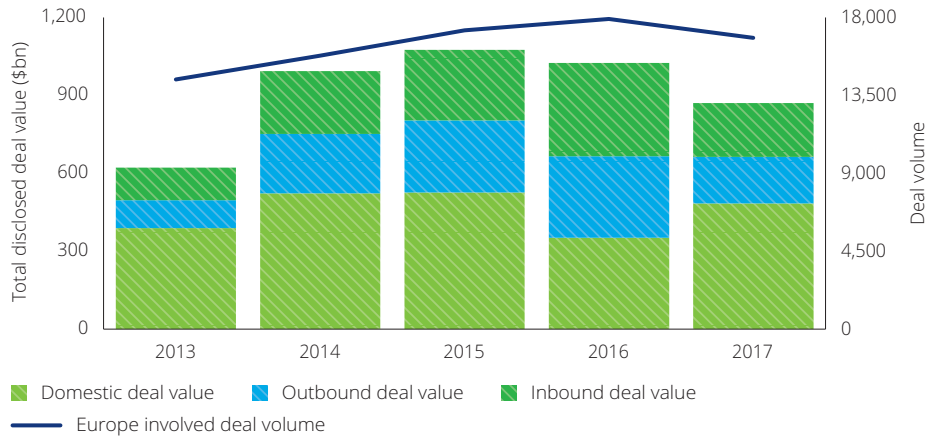
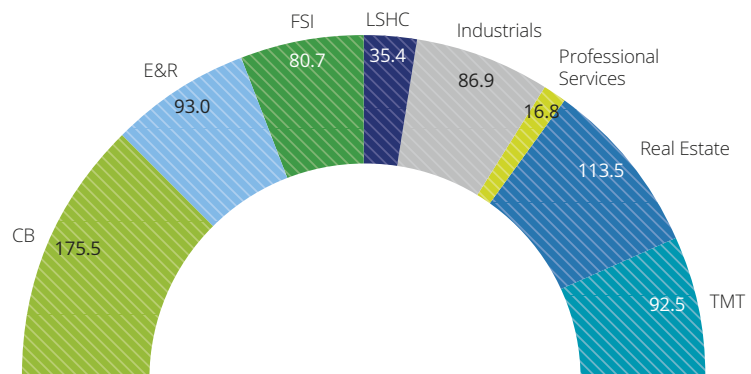


Figure 30. Europe as target - Deal value by target sector in \$bn (2017)



Japan

Japanese total M&A in 2017 was \$67 billion, the most active deal corridors include those from Japan to the US, Europe and South East Asia. Japanese companies remain hungry for overseas growth opportunities. They have access to cheap financing, corporate governance reforms are underway and there is pressure from shareholders to deliver better return on equity.⁷⁶

The relative shifts in trade policy could also give Japanese firms cause for some caution before they invest in the US. And activity between Japan and Southeast Asian companies will be heightened by their geographic link, at a time when investing in China is ever more complex.

Meanwhile, domestic M&A activity, particularly in the middle market and among family owned businesses is expected to do well. In such businesses, owners typically stay in position until they reach their 60s or 70s before handing over to younger generations.⁷⁷ Private equity firms are increasingly seeing opportunities in buying some of these businesses. PE activity in Japan has been strongly increasing over recent years, up 542% year on year in value and 32% in volume, as Japanese business and political culture increasingly reflects the value of these investors to the market.⁷⁸

We also expect some smaller scale venture activity to be present among large conglomerates looking to capture new disruptive opportunities and to be ahead of the curve in areas including FinTech and the Internet of Things. Technology, media and telecoms represents Japan's largest M&A sector. There is a strong growth in corporate venture capital activities geared towards capture of new opportunities and support for companies already transforming their markets.

Figure 31. Total disclosed deal value in Japan, 2013-17

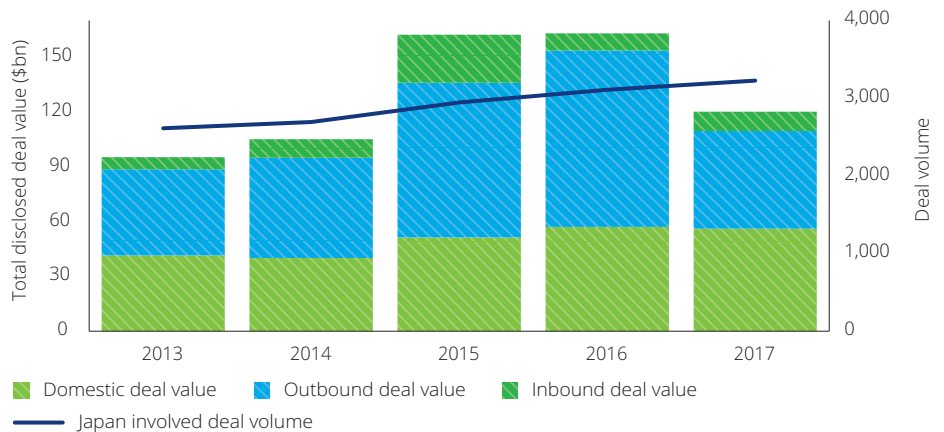
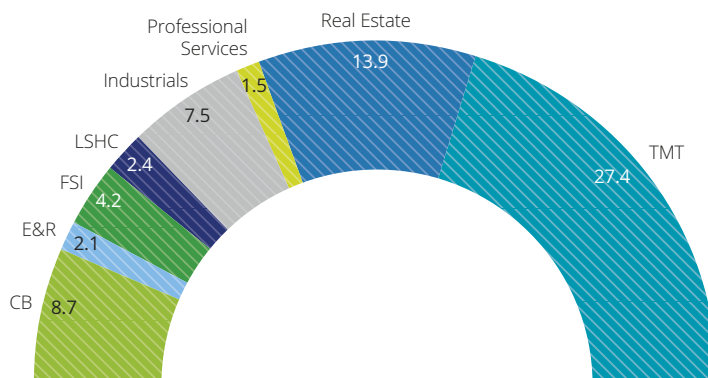


Figure 32. Japan as target - Deal value by target sector in \$bn (2017)



The most active deal corridors include those from Japan to the US, Europe and South East Asia. There is a strong growth in corporate venture capital activities as well



Australia

In Australia, 2017 saw a steady deal flow with a three percent increase, and a solid growth in both inbound and outbound deals, based on particularly strong corridors with the US and UK and France. By value, real estate, and energy and resources, are the top areas of M&A in the country, with \$19.2 billion and \$7.8 billion in inbound value respectively.

Divestments are becoming a focus for an increased number of Australian firms,⁷⁹ and we expect to see this trend gather pace. In part this is due to activist investors pushing companies to focus on their core activities and to siphon off less important assets. To some degree it is also the result of disruption, including from new mobility technology and fresh business models, affecting a variety of sectors, with a plethora of smaller deals prompting a 21% growth in Australia-targeted acquisition volumes. The rise of high-tech smart cities, including the massive investment planned for Sydney over the next decade,⁸⁰ presents opportunities.

In Australia, last year saw a drop in business confidence based on retail and budgetary worries, and a dip in capital markets activity. Combined with the high amounts of funds available to invest by private equity, selling to private equity continues to be a strong alternative to an IPO for private companies.

As confidence now returns – powered by strong mining and construction, and improving retail conditions⁸¹ – no matter what type of buyer, we expect to see an increase in deal values. This development will be particularly visible in areas experiencing significant growth such as financial services and other bellwethers including life sciences and healthcare, in addition to the continued high activity in energy and resources.

Figure 33. Total disclosed deal value in Australia, 2013-17

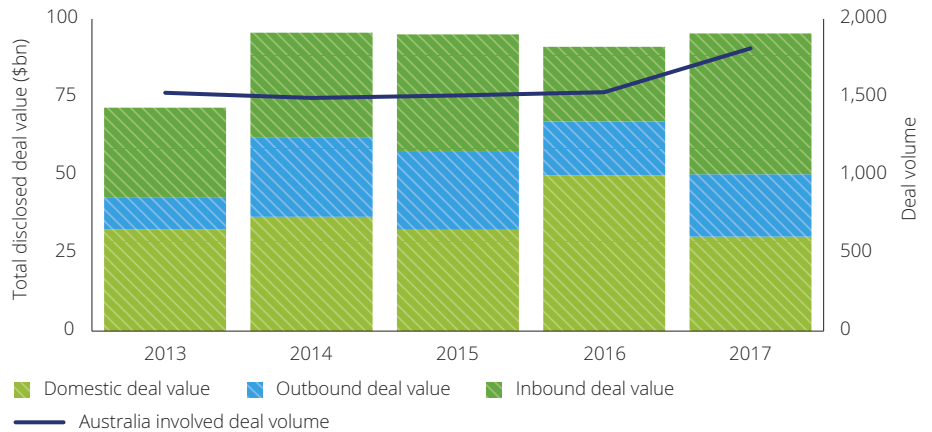
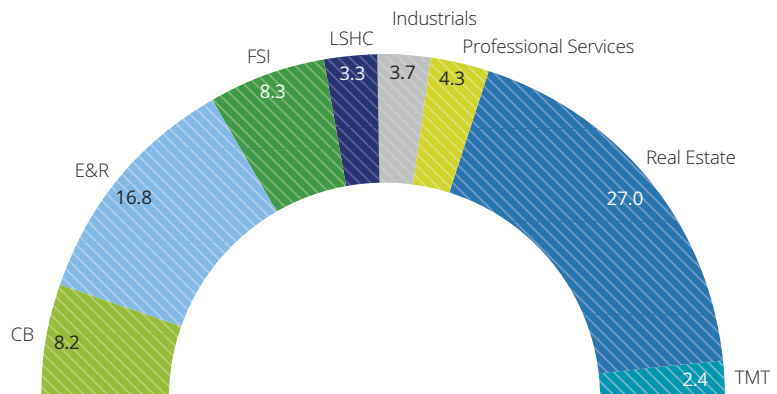


Figure 34. Australia as target – Deal value by target sector in \$bn (2017)



Divestments are becoming a focus for an increased number of Australian companies and we expect this trend to gather pace in coming months.

Rest of Asia, Africa and Middle East

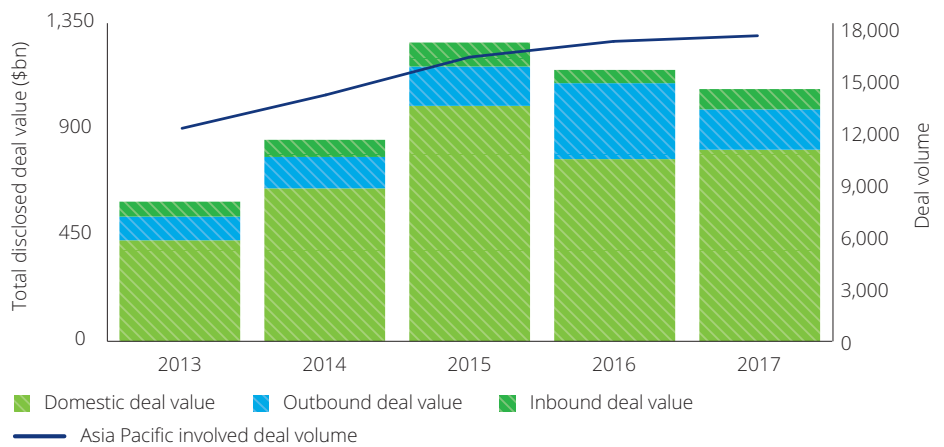
India saw a 41% increase in strategic acquisitions and 77% increase in private equity deals last year

Rest of Asia

Private equity is expected to be highly active across Asia. These funds have a large amount of dry powder, and need to spend much more than during the last three to four years if they are to satisfy investors and grow capital. Given strong global consumer spending on Asia Pacific goods, the area remains attractive for M&A.⁸²

Across the rest of the continent, India, with \$55 billion of deals and more than 7% GDP growth predicted for the year,⁸³ witnessed a 41% increase in strategic acquisitions and a 77% leap in private equity purchases, by value.

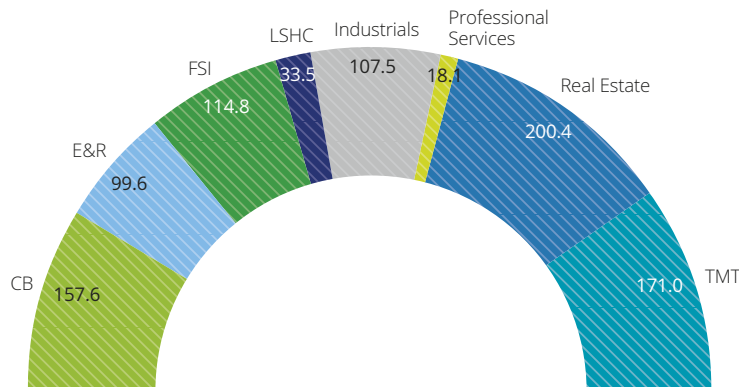
Figure 35. Total disclosed deal value in Asia-Pacific, 2013-17



Africa and Middle East

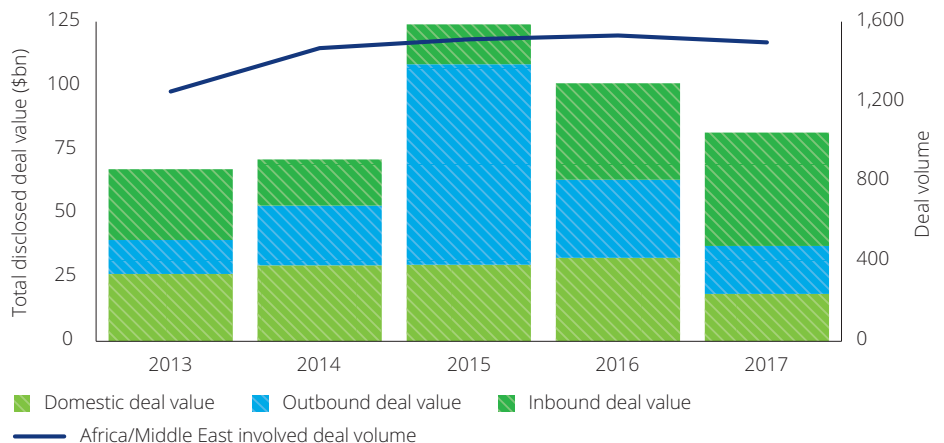
Elsewhere, deals involving Africa and the Middle East slid 19% last year to \$82 billion, however the recovering oil price is likely to substantially boost deal values for a number of nations including Saudi Arabia and the United Arab Emirates, which are looking to new sectors for future growth. Israeli firms are the top regional target at \$24 billion, boosted by some strong technology acquisitions and high US activity.

Figure 36. Asia as target - Deal value by target sector in \$bn (2017)



Commodity and retail momentum present Asia-Pacific deal makers with significant M&A opportunities

Figure 37. Total disclosed deal value in Africa/Middle-East, 2013-17



Latin America

Latin America

Across Latin and South America, M&A activity is expected to be strong. Values are up slightly in most countries and there are some significant opportunities in areas including energy and resources, given increasing commodity prices;⁸⁴ as well as financial services, technology, media and telecoms, and consumer products. The business environment, however, could be significantly impacted by elections this year in Brazil, Paraguay, Mexico, Colombia and Venezuela.

Last year in Brazil, there was a 6% decline in acquisitions to \$39 billion, and a 200% increase in outbound deal value after a poor 2016.

The tough economic environment in Brazil is putting pressure on companies to divest assets but inbound investment remains solid at \$27 billion, in spite of concerns relating to high profile scandals involving oil, meatpacking and telecoms industries.⁸⁵ Nevertheless, sectors including consumer goods, industrial products and financial services will be appealing in the longer term.

Elsewhere, Argentina offers good opportunities as it experiences an economic recovery. Importantly, the new government is making some pro-business decisions and the result is gradual increases in M&A.⁸⁶ There is also strong potential from growing US and Chinese company acquisitions in the country, particularly in the technology, media and telecoms space – although Chinese businesses typically look for larger tickets than those normally available.

Private equity continues to generate activity in South America, with houses active in technology and telecoms, and across resource sectors in Brazil⁸⁷ as commodity prices recover. Some more expansive PE funds are buying when they spot a profitable niche opportunity, then growing their activities in the sector or geographic marketplace.

Figure 38. Total disclosed deal value in Latin & South America, 2013-17

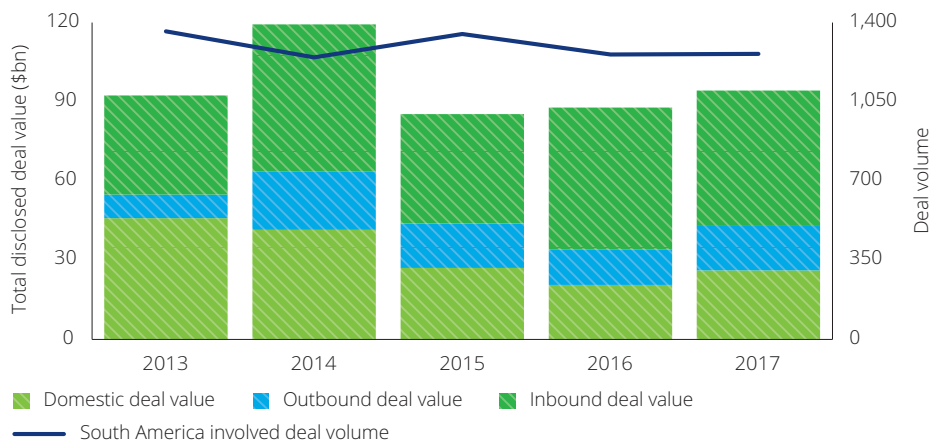
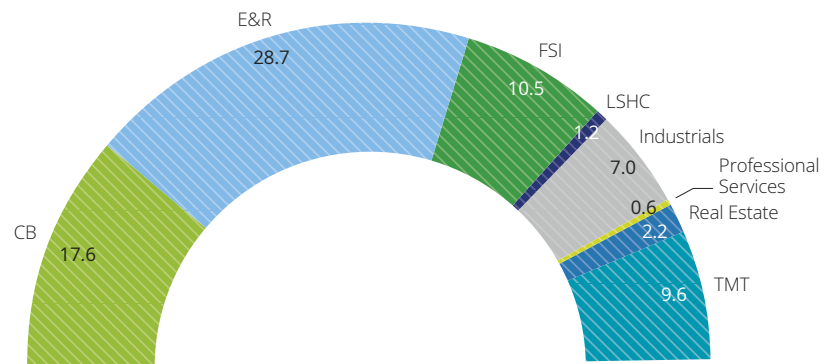


Figure 39. Latin & South America as target - Deal value by target sector in \$bn (2017)



Mexico's M&A market, meanwhile, is likely to remain active, though it equally awaits the outcome of NAFTA talks and US tariffs. Many deals are inbound, at \$6.2 billion, with most investment still from the US and Canada, in spite of the uncertainty. Several key sectors will remain strong, including the

consumer industry and financial services, given their growing consumer base. There are opportunities in energy and telecoms sectors following their opening to foreign capital, with some early acquisitions resulting.

A changing political environment this year could still give way to significant cross-border M&A

M&A outlook for sectors

Consumer Business

Industrial Products

Financial Services

Technology, Media and
Telecommunications

Life Sciences and Healthcare

Energy and Resources





Consumer Business

We expect continued growth in the consumer business sector M&A this year – driven by disruptive forces, the need for transformation, divestments and the high involvement of private equity in the sector.

Over the last year, there has been a proliferation of megadeals, pushing total M&A value up 15% to \$525 billion. Consumer staples and retail represented a combined \$314 billion, with the latter driven by robust US M&A activity, though this could receive a dent from Chinese retaliatory tariffs on food.⁸⁸ Across the consumer sectors, the most activity emanated from US, China and Spain.

New technologies and consumer engagement models continue to massively disrupt the consumer business sector, forcing companies to acquire if they have been left behind. The acquisitions range from relatively small purchases of disruptive technology companies to large deals with store chains and online firms buying each other.⁸⁹

Figure 40. Global disclosed deal value for Consumer Business as a target (\$bn) 2010-17

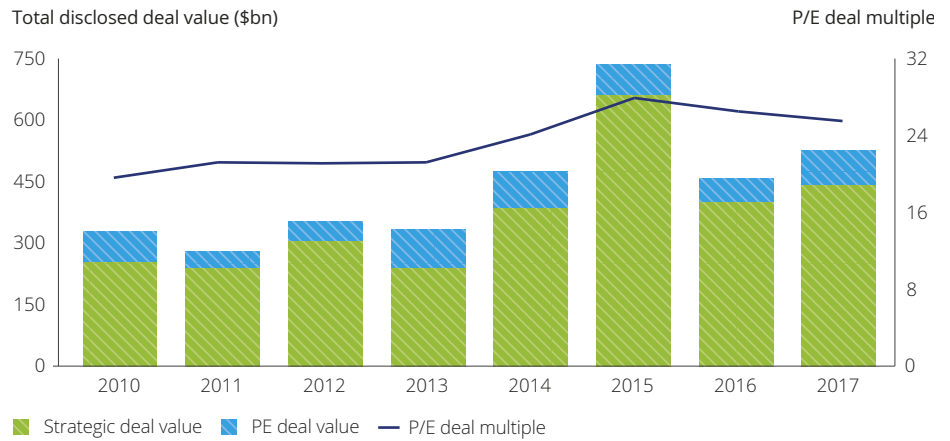


Figure 41. Consumer Business deals by target region (2016 vs 2017)

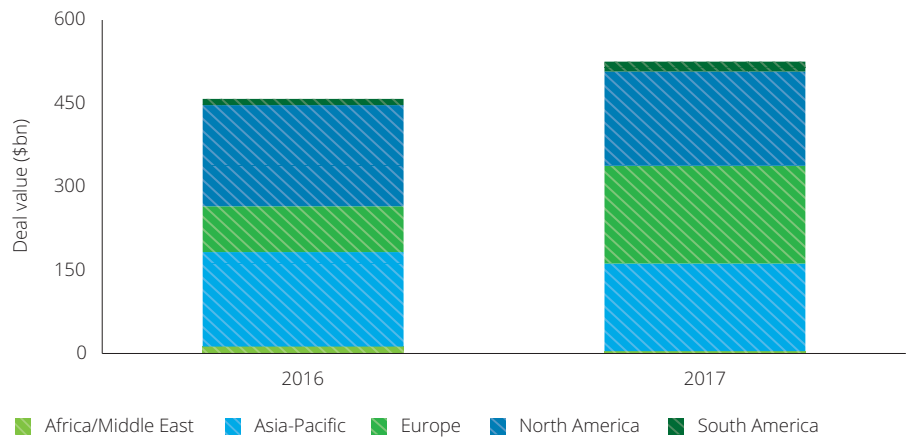
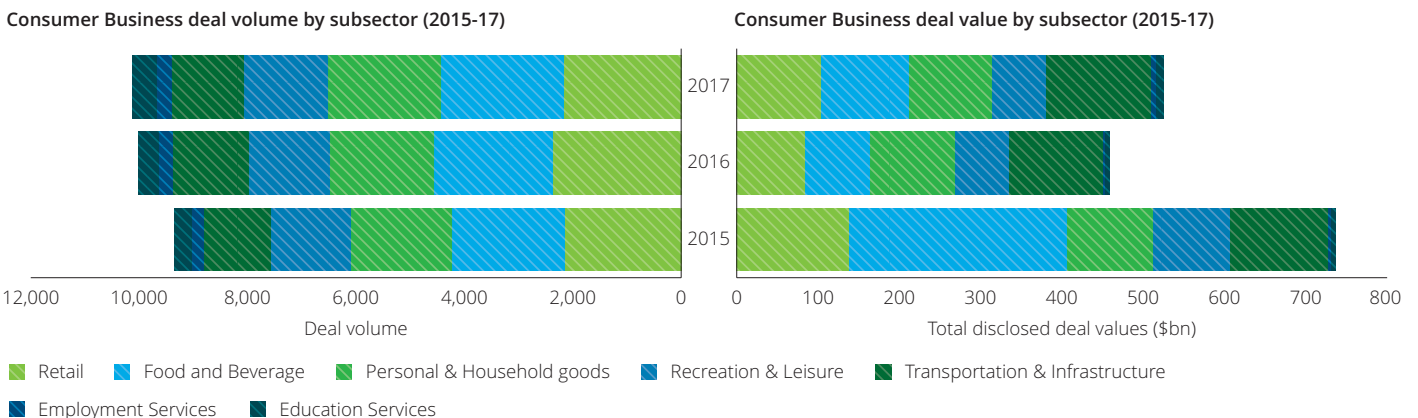


Figure 42. Consumer Business deals by target subsector (2015-17)



A recent Deloitte study found that consumer products companies delivering exceptional financial performance tend to have a coherent, singular business model – be it through operational excellence, product or brand leadership, or the provision of highly competitive customer solutions.⁹⁰ We anticipate a rise in the number of divestments in the sector, as businesses siphon off non-core product categories that do not provide a clear advantage.

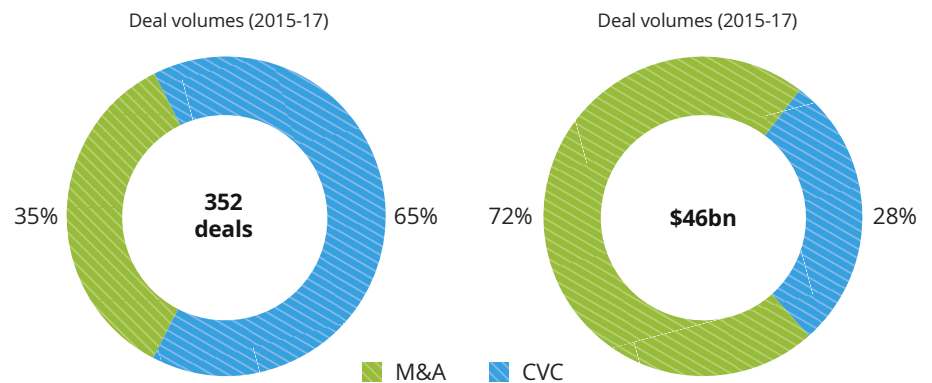
Activist shareholders, vocal in shaping the strategy of several large businesses in the sector,⁹¹ will push firms to swiftly streamline for increased profit. And private equity firms, which grew sector volume activity by 8% last year, are quick to acquire these divested assets.

The US continues to be a major source and target of M&A in the sector, at \$48 billion of cross border last year, while China will continue as an essential deal corridor, in spite of the reduction in its acquisition rates. Purchases of European firms are increasingly attractive as Eurozone economies grow and consumers spend more.

Figure 43. Cross border deals – Consumer Business as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
United States	32,727	United States	48,361
France	32,301	Italy	28,471
United Kingdom	29,209	Spain	26,104
Italy	18,844	United Kingdom	25,397
China	15,010	China	8,564
Total	217,622	Total	217,622

Figure 44. Disruptive M&A and Corporate Venture Capital investments by Consumer Business companies



Small acquisitions will be essential for this sector to access disruptive business models and technologies



Industrial Products

In the industrial sector, deal volumes are largely consistent. Deal values meanwhile, in areas ranging from aerospace to the automotive sector, declined 26% to \$338 billion last year.

Industrial products businesses will continue to divest their non-core assets and focus on where they can be market leaders throughout 2018. To some extent, pressure to do this will come from activist shareholders who were particularly influential last year, pushing for structural changes.⁹² In the case of some large mergers, divestment pressure could come from regulators pushing for structural changes on competition grounds.⁹³

Meanwhile, many industrial sector businesses will see opportunities to spend money – raised from divestments – on accessing technological advances, often involving automation and robotics, in order to get ahead of the curve and turn market disruptions to their advantage. In the US there will be a significant boost for the industry from tax reforms, which will make the deductibility of extensive physical asset costs more attractive.⁹⁴

Figure 45. Global disclosed deal value for Industrials as a target (\$bn), 2010-17

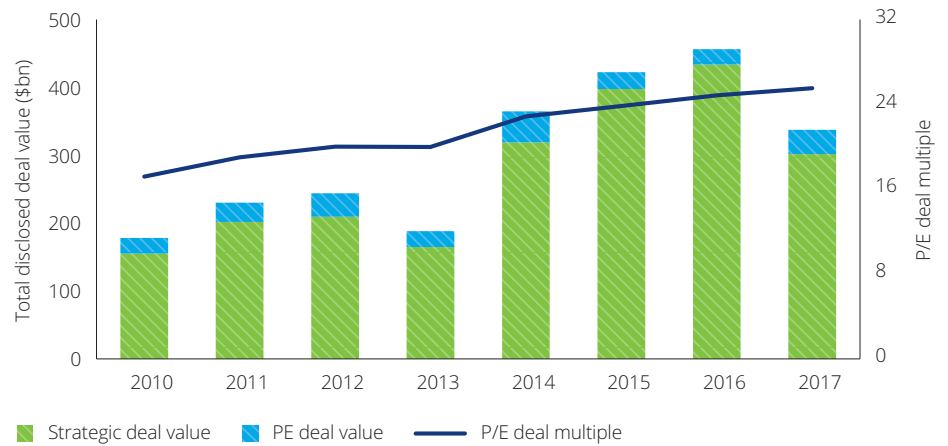


Figure 46. Industrials deals by target region (2016 vs 2017)

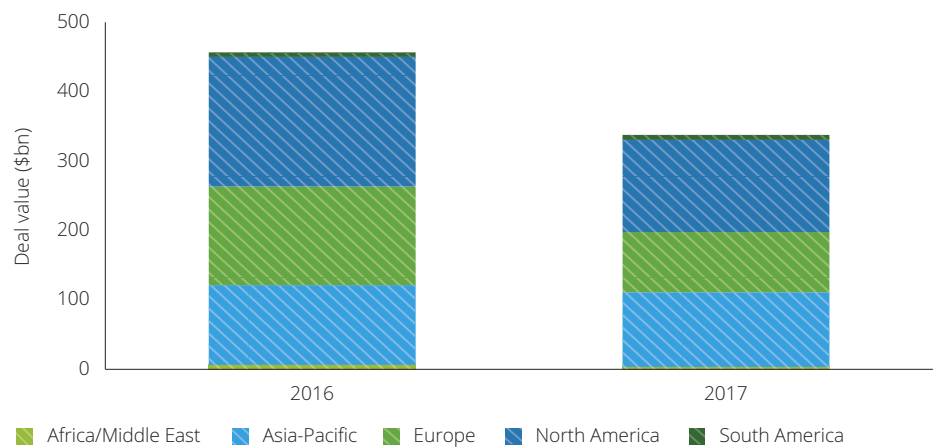
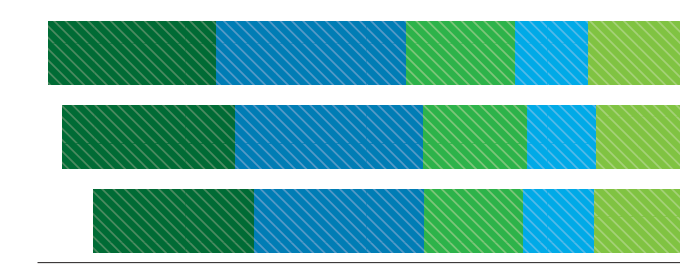
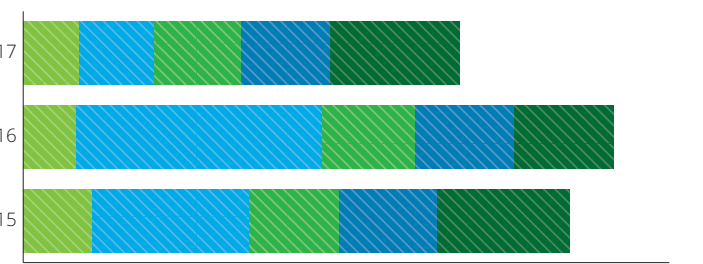


Figure 47. Industrials deals by target subsector (2015-17)

Industrials deal volume by subsector (2015-17)



Industrials deal value by subsector (2015-17)



Deal volume: Automobiles & Components, Chemicals, Machinery, Building/Construction, Others

Total disclosed deal values (\$bn): Automobiles & Components, Chemicals, Machinery, Building/Construction, Others

M&A in the chemical sector declined the most of all industrial subsectors last year, by some 70% to \$58 billion. This is largely due to the absence of megadeals but we predict 2018 will be a more positive year for the subsector, as businesses look to substantially realign their portfolios and consider both divestments and acquisitions.

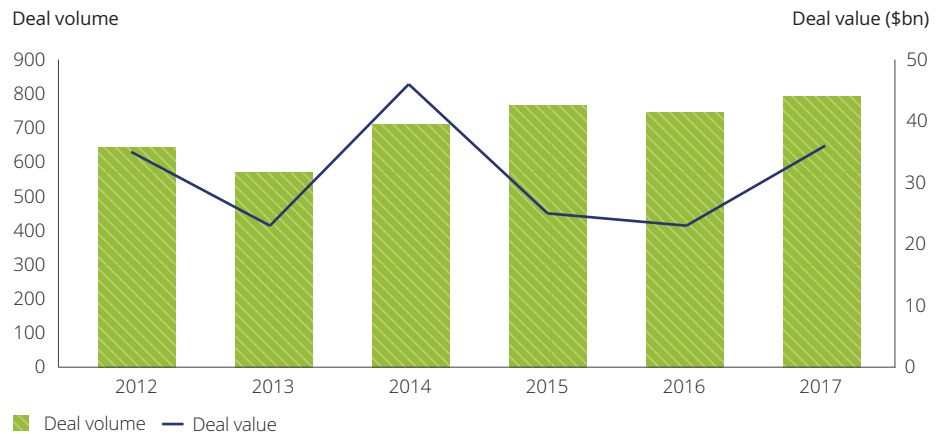
Among aerospace part suppliers, there has been consolidation to help improve efficiency and offset pressure from major aircraft manufacturers, which are demanding reduced costs and increased production.⁹⁵ And car manufacturers have sought scale to counteract the effect of cost pressure.⁹⁶ Machine makers are looking to acquire in the technology space to step up their capabilities in the Internet of Things, robotics and automation.⁹⁷

Elsewhere, engineering and construction companies are making acquisitions to access lucrative government and infrastructure contracts – particularly of note is the US where the government is looking to motivate \$1.5 trillion of public and private spending on infrastructure, and in China where the \$900 billion Belt and Road Initiative will create a number of large trading routes with neighboring countries.⁹⁸

Figure 48. Cross border deals – Industrials as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
United States	29,248	United States	26,127
France	17,293	Germany	25,594
China	11,496	Canada	9,159
Japan	6,694	France	7,990
United Kingdom	5,705	United Kingdom	5,652
Total	110,790	Total	110,790

Figure 49. Industrials targeted PE deals



Major infrastructure projects and US tax changes will provide fuel for geographically-targeted M&A



Financial Services

We expect high M&A activity this year in the global financial services industry (FSI) space. Appetite is strong following \$306 billion of acquisitions made in 2017, and among growing major economies as expected higher interest rates promise better returns.

The insurance sector is looking anew at legacy portfolios, particularly back books involving life insurance and pensions, reassessing their value. In many cases, divestment makes good commercial sense, with private equity firms ready to snap up the resulting opportunities. PE are taking a high interest in this space, often with a view to maximising efficiencies and synergies with other owned portfolios.

For large banks and insurers, selling unwanted assets means freeing up resources that can be reallocated elsewhere. Their investments and acquisitions are often in the realms of technology, including machine learning and automation.¹⁰⁰ Frequently, their venture arms take an active role in scouting significant technology and talent.

Figure 50. Global disclosed deal value for Financial Services as a target (\$bn), 2010-17

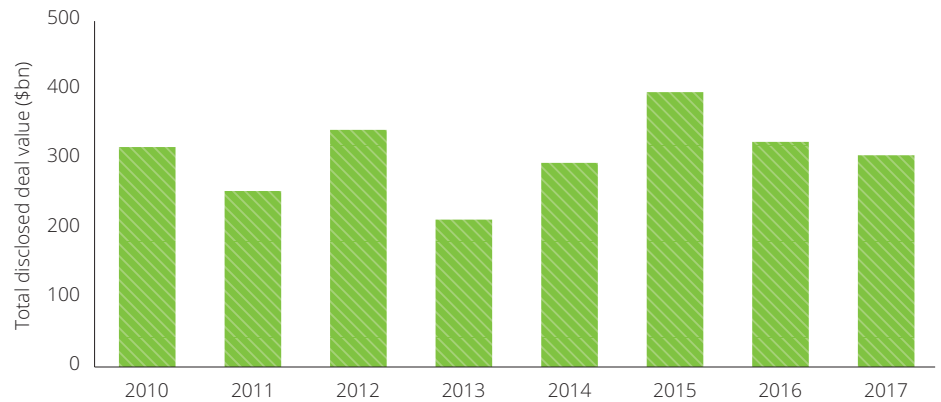


Figure 51. Financial Services deals by target region (2016 vs 2017)

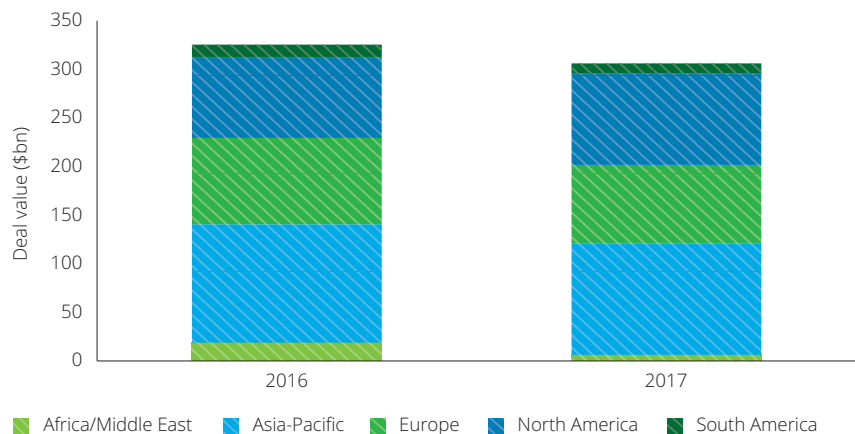
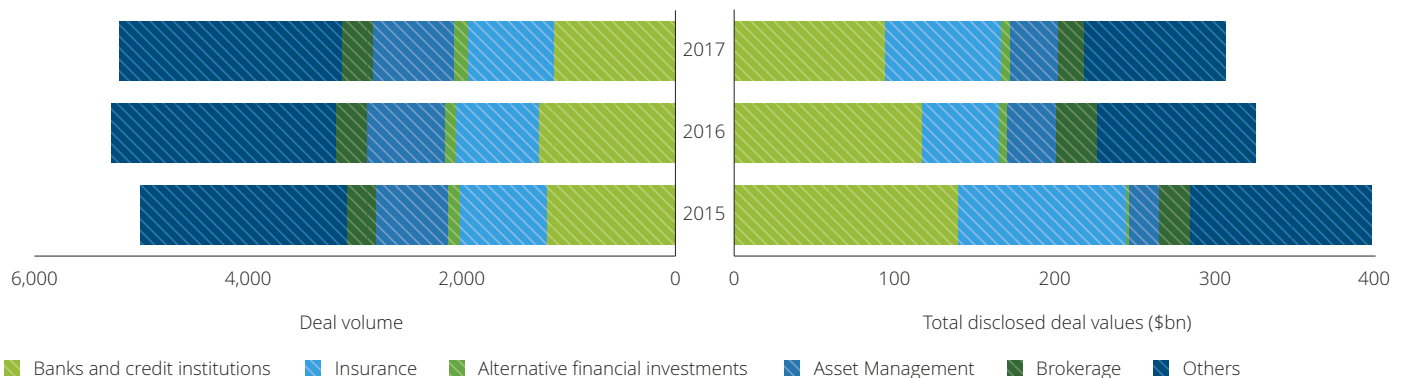


Figure 52. Financial Services deals by target subsector (2015-17)

Financial Services deal volume by subsector (2015-17)

Financial Services deal value by subsector (2015-17)



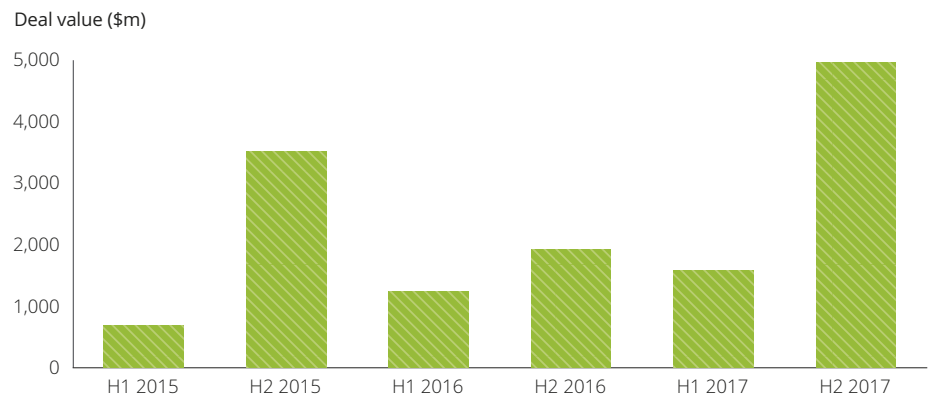
We also expect regulatory changes to drive M&A. Liquidity and solvency requirements will continue to push banks and insurers to divest tougher operations and buy businesses that may offer better cash flow and future potential.¹⁰¹

The US and China continue to account for more than half of financial deal value, at \$84 billion and \$72 billion respectively. We expect many strong deal targets in Asia-Pacific, particularly Southeast Asia, given some of the capital and leverage constraints in China and some sharp falls in local equity values. Strong deal flows remain in EMEA and the US, the latter of which will remain the most targeted market and could be boosted by tax reforms and the repatriation of cash. Elsewhere there are major opportunities in Mexico as large banks see opportunities to grow their geographic footprint in an expanding market.¹⁰²

Figure 53. Cross border deals – Financial Services as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
United States	15,662	United States	15,750
Japan	9,480	United Kingdom	14,976
United Kingdom	7,777	Australia	5,847
China	7,266	Chile	4,917
Canada	6,893	India	4,773
Total	84,126	Total	84,126

Figure 54. M&A in Fintech



We are seeing a strong regulatory push driving M&A in this sector. Liquidity and solvency requirements will push companies to divest and free capacity to acquire growth businesses



Technology, Media and Telecommunication

Technology, Media and Telecommunications

Last year saw a significant number of deals in the technology, media and telecommunications (TMT) space, including 16% volume growth in the Americas, and seven global megadeals. We expect extensive activity this year.

Technology is the third biggest industry at \$422 billion of deals last year. In media and telecommunications, there were \$140 billion and \$94 billion of acquisition activity respectively.

Disruption is clearly in evidence across TMT. The growth of subscription models, as exemplified by music and television streaming, will continue. Meanwhile, technology sector companies are expanding aggressively into areas as diverse as healthcare, self-driving cars and retail.¹⁰³

Non-technology firms, witnessing these changes, will acquire digital businesses to gain added capabilities or skillsets. Financial services, media and industrials sector are leading the way.¹⁰⁴

Figure 55. Global disclosed deal value for TMT as a target (\$bn), 2010-17

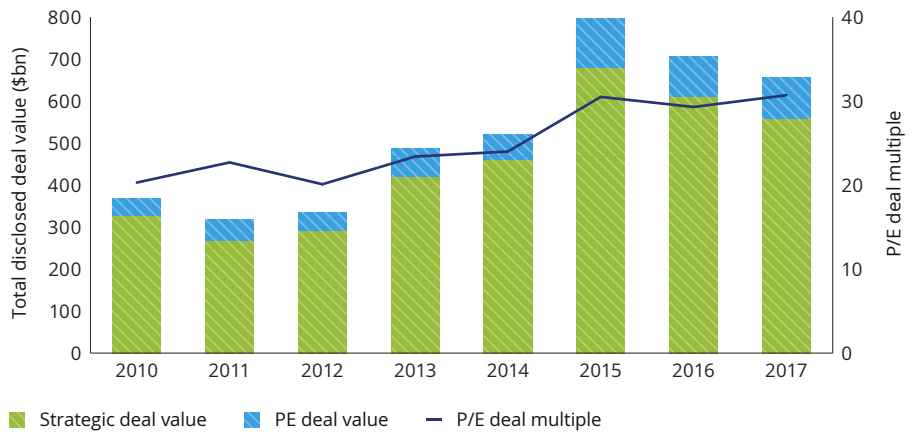


Figure 56. Technology, Media and Telecommunications deals by target region (2016 vs 2017)

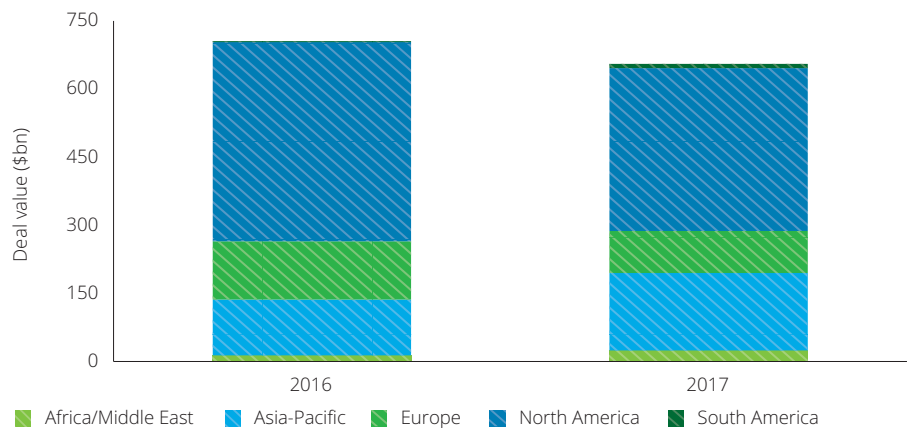
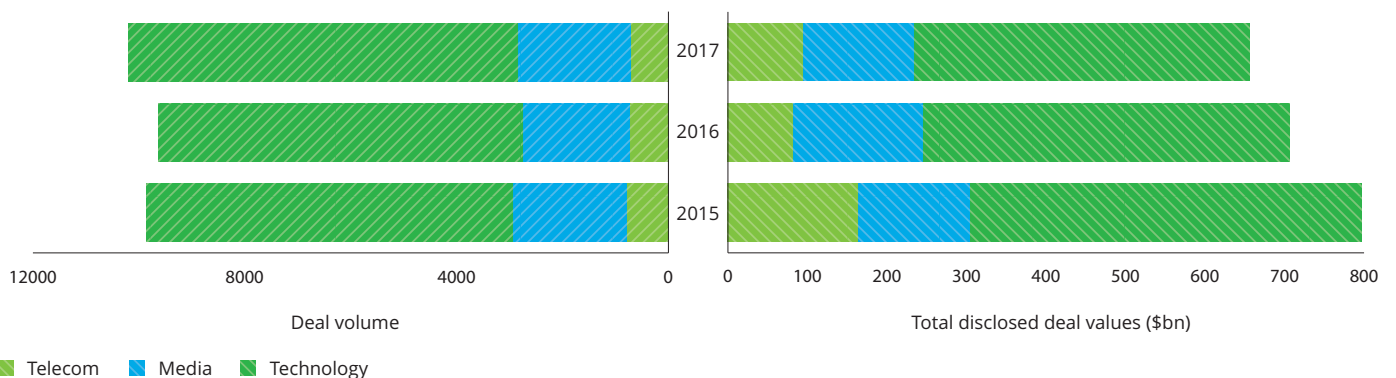


Figure 57. Technology, Media and Telecommunications deals by target subsector (2015-17)

TMT deal volume by subsector (2015-17)

TMT deal value by subsector (2015-17)



Meanwhile, in broadcast media, an ongoing push for traditional broadcasters to match online subscription giants is leading to some aggressive consolidation, and it could eventually lead to large acquisitions involving online platforms.¹⁰⁵ In advertising, change continues apace with clients pushing for more affordable, all-under-one-roof and digital development,¹⁰⁶ and print media firms continuing to invest online. In telecommunications, there have been significant divestments as traditional firms seek to sell landline operations to private equity firms aggregating businesses for synergies. Freed capital will power cutting edge 5G investments.¹⁰⁷

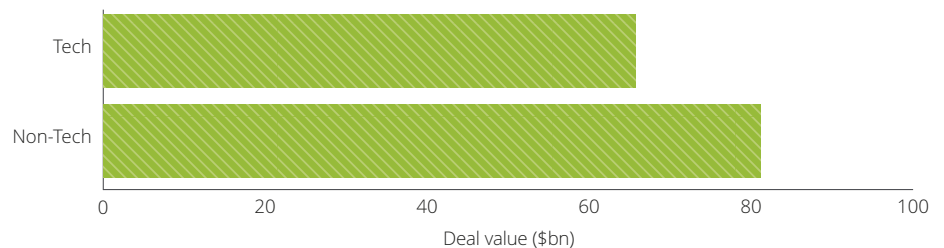
The scale of some acquisitions, particularly visible in technology, broadcast and advertising so far, will lead to some regulatory challenges, especially when job location and other political sensitivities are involved.¹⁰⁸

China-linked investment remains substantial in the industry, with \$12 billion worth of outbound TMT deals. Its acquisitions of assets are meeting strong regulatory resistance.¹¹⁰ We expect to see sustained interest in TMT acquisitions from Europe and the US – as well as Japan, a significant acquirer in the space given its highly advanced technology sector.¹¹¹

Figure 58. Cross border deals-TMT as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
United States	52,436	United States	36,267
United Kingdom	13,532	United Kingdom	17,427
France	12,339	Israel	16,486
China	11,693	Netherlands	9,497
Bermuda	6,240	Germany	7,645
Total	142,965	Total	142,965

Figure 59. Disruptive Innovation – Global Innovation M&A activity by Acquirer Industry (2017) (\$bn)



Every sector is acquiring technology enabled assets in order to compete against disruptions and this means a big boost for M&A in the TMT sector



Life Sciences and Healthcare

The life sciences and healthcare industries have strong M&A potential this year, building on the momentum from megadeals towards the end of 2017 that took total values to \$273 billion.

For life sciences firms, we expect increased M&A around expanding geographic footprints,¹¹² as well as a focus on growing expertise in specific patent replenishment areas and on cutting clinical trial costs. Meanwhile, the growing dependency on technology to offer personalised medicine, will lead to more biotech investments and partnerships with the technology sector.¹¹³

In terms of deal corridors, China will remain somewhat active with growing outbound activity around research and development. The country, as with India, has significantly large development of bio-similars – drugs designed to have properties similar to those already licensed.¹¹⁴ American and Japanese companies will remain the largest life sciences acquirers, however.

Figure 60. Global disclosed deal value for LSHC as a target (\$bn), 2010-17

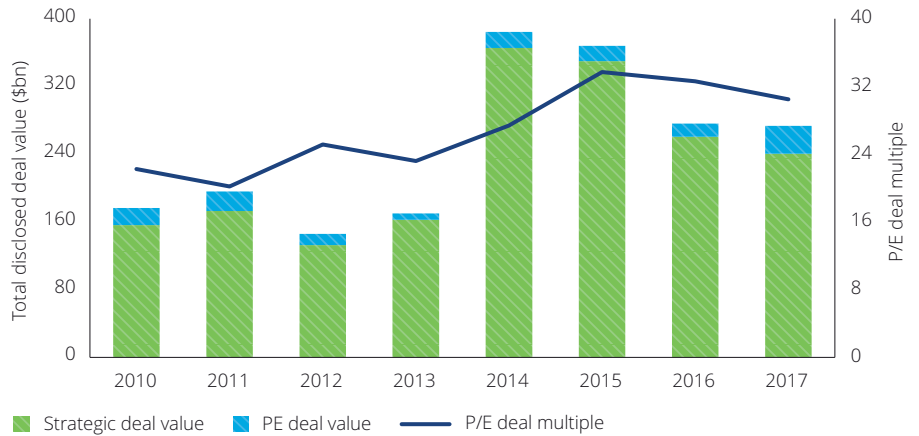


Figure 61. LSHC deals by target region (2016 vs 2017)

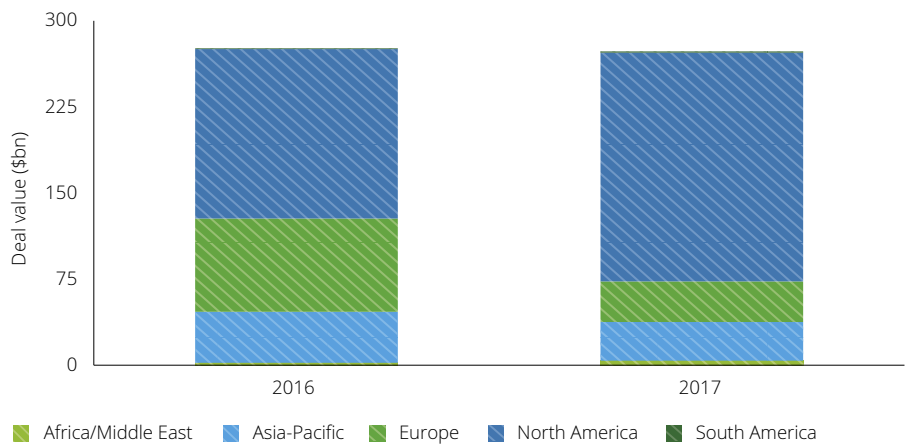
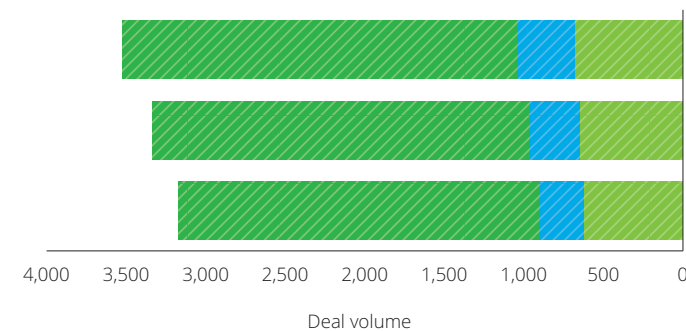
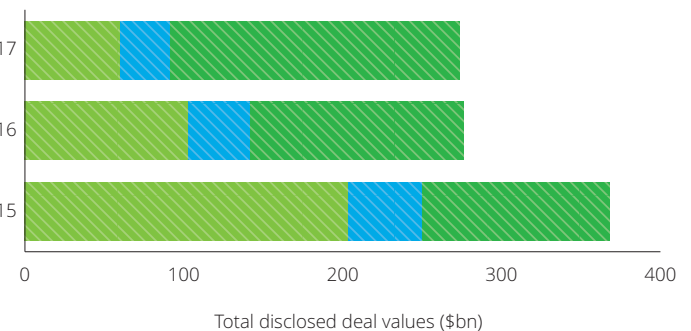


Figure 62. LSHC deals by target subsector (2015-17)

LSHC deal volume by subsector (2015-17)



LSHC deal value by subsector (2015-17)



■ Pharmaceuticals ■ Biotechnology ■ Healthcare

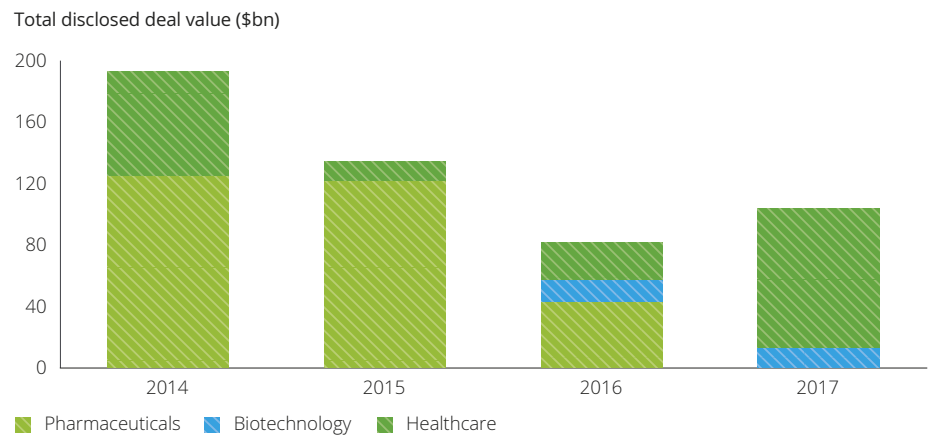
Healthcare is generally a much more localised market geographically than life sciences, but that certainly does not mean it will be small in M&A scale. The US is the largest market by expenditure, at 18% of GDP and approximately half of the world's total \$8 trillion health expenditure.¹¹⁵ Activities will be driven by scale and cost containment, as well as by disruption from new payment models, and over 60% of hospitals are now part of a 'healthcare system' of companies.¹¹⁶ There will also be new cross-sector opportunities, with pharmaceutical and technology companies buying into healthcare.¹¹⁷ We expect widespread consolidation activity in the US system because it remains disaggregated.

In China, healthcare investments will mainly be around access to care, and involve building hospitals first, then looking at other types of care such as primary healthcare.¹¹⁸ In less developed healthcare systems around the world, technology is making a huge difference, and there could be some strong M&A activity around digital information and access to healthcare on mobile phones.¹¹⁹ Africa and Asia are particularly strong target markets in these contexts, and there are opportunities in the West where in-person healthcare costs are high.

Figure 63. Cross border deals-LSHC as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
United States	14,758	United States	29,921
Japan	10,616	France	9,605
Switzerland	10,114	Netherlands	7,299
China	8,275	Germany	3,860
Germany	7,890	Canada	3,663
Total	68,746	Total	68,746

Figure 64. LSHC Mega deals (=>\$10bn) value by subsector



M&A activities will be driven by building scale and containing cost, as well as disruption from new health-tech and payment models



Energy and Resources

Energy and Resources

In energy and resources, there was a 17% decline in deals to \$450 billion last year. In a sector historically characterised by megadeals and consolidation,¹²⁰ fewer were launched but they did include a large US power acquisition and a large Canadian oil and gas deal.

We expect growth this year, and energy and resources is likely to remain one of the largest sectors by value worldwide, though incoming US tariffs could provide a headwind for metals. For the oil subsector, steady growth in prices, as OPEC continues restricting production,¹²¹ will put more cash on balance sheets, increasing confidence and helping some planned areas of growth come to fruition.

We expect consolidation to be another feature of the oil market, as companies use this strength from higher oil prices to begin spending assertively on M&A, gaining scale to handle increasingly complex exploration projects.¹²³ It will also be motivated by shareholder pressure to lower costs and improve dividends.¹²⁴ Growing exploration in the Permian Basin in Texas and New Mexico, where there are extensive reserves, could be a pocket of higher activity, though lingering time and budget challenges for drilling shale here could provide a headwind.¹²⁵

Figure 65. Global disclosed deal value for Energy & Resources as a target (\$bn), 2010-17

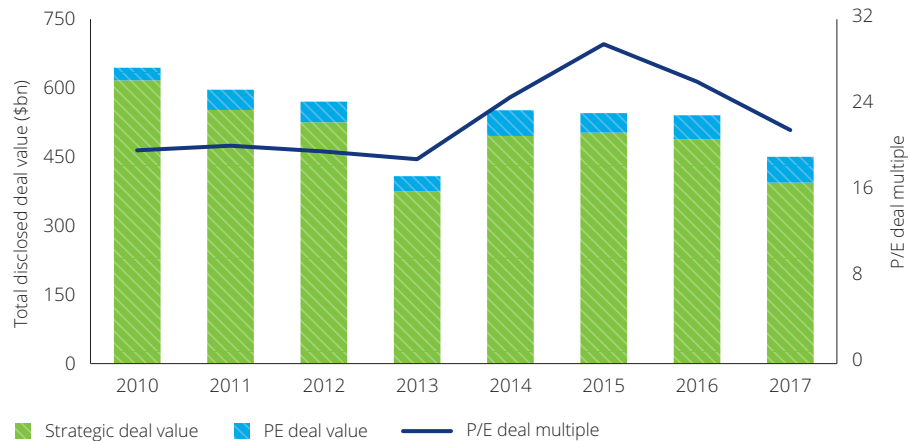


Figure 66. Energy & Resources deals by target region (2016 vs 2017)

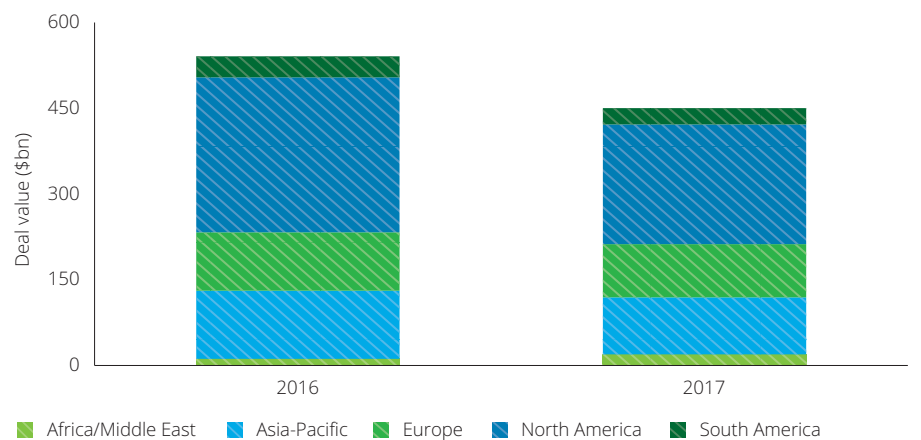
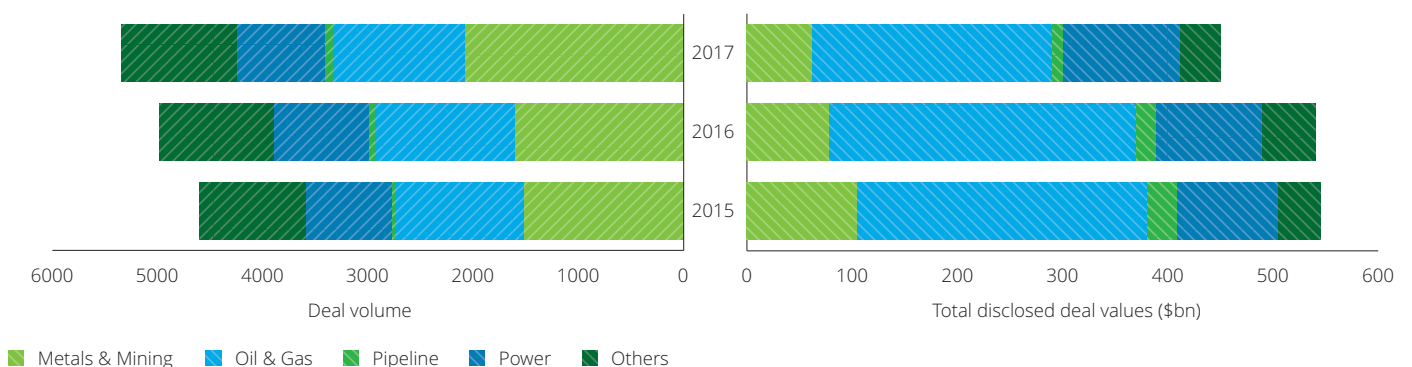


Figure 67. Energy & Resources deals by target subsector (2015-17)

Energy & Resources deal volume by subsector (2015-17)

Energy & Resources deal value by subsector (2015-17)



Meanwhile, increased consumption of natural gas is enabling more firms to begin engaging in acquisitions of gas distributors, while an outlook of falling power prices provides a strong incentive to look beyond organic growth alone.¹²⁶ Private equity firms are also highly active in this area.¹²⁷

We equally expect more acquisitions in mining. With the sector having undergone a few years of reducing costs,¹²⁸ and as commodity prices rise, there is newly available cash. That money will likely drive some targeted, innovation-centric M&A.¹²⁹

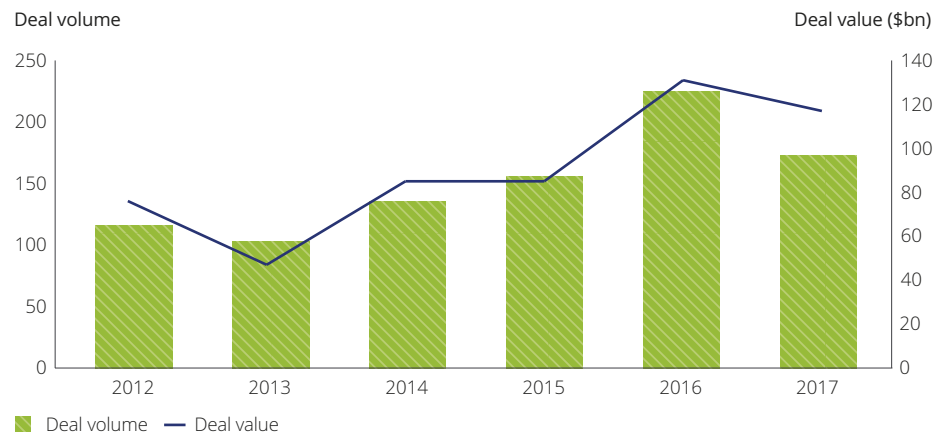
Meanwhile, divestments will continue apace, as companies come under pressure to lower costs and increase efficiency. Among major moves, a number of companies are selling off their large Canadian oil sands assets, to reduce exposure to more costly, carbon-heavy production.¹²² With the cash from divestments, those companies are engaging in venture investments for innovative technology, that is aimed at improving efficiency and cleaner systems.

Across energy and resources, the US had the highest inbound investment at \$24 billion last year and this could increase as firms look to offset the impact of The Trump Administration's recently-announced aluminum and steel tariffs.¹³⁰ The US was followed by Brazil at \$12 billion of inbound agreements. Outbound deals remain led by China, at \$29 billion, one of the country's most likely to be hit by the American tariffs. Australia, with its extensive natural resources, is an active outbound resources acquirer, and has been spared the tariffs. Tough global regulatory scrutiny, aimed at protecting competition and domestic ownership of key resources, could derail particularly large deals.¹³¹

Figure 68. Cross border deals-Energy & Resources as target sector

Cross Border Acquirers (2017)		Cross Border Targets (2017)	
Country	Deal value	Country	Deal value
China	29,062	United States	23,598
United States	24,198	Brazil	12,263
Canada	22,802	Russian Fed	11,659
United Kingdom	15,384	Germany	11,245
France	11,140	Denmark	9,742
Total	159,166	Total	159,166

Figure 69. Energy & Resources targeted divestments deal volume and value (including demerger, auction, insolvency)



We expect consolidation to be a key feature that will continue to drive M&A

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Notes:

Unless specified M&A figures are for deal values.

Unless specified the deal figures are for target region or target sector.

Involved deal volume is the sum of domestic deal volume, outbound deal volume and inbound deal volume.

Disruptive Innovation related M&A includes 1) VC Exits (corporates as acquirers); 2) Pre-venture M&A deals (self-funded startups M&A); and 3) \$500mn & above M&A deals whose deal rationale is disruptive in nature.

Digital & Social includes E-Commerce; E-Commerce Subscription; On-Demand; EdTech; AR/VR; Digital Health related companies.

FinTech includes Digital only Bank; RegTech; InsurTech; WealthTech; Alternative Lending; Bitcoin; Capital Market Tech; Personal Finance Tech related companies.

Disruptive Innovation M&A and CVC data has been sourced from PitchBook and CBInsights.

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