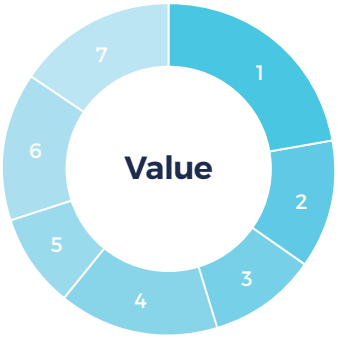
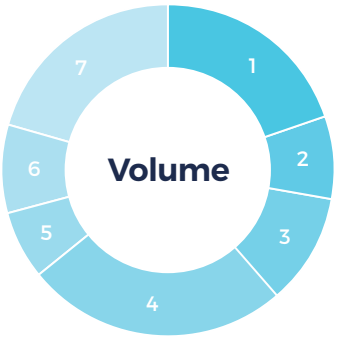
M&A monitor

State of the market Q2 2017



Sector		$bn	%
1	Consumer and healthcare	155	22.47
2	Energy and natural resources	86	12.51
3	Financial institutions	73	10.54
4	General industries	107	15.45
5	Infrastructure and transport	63	9.15
6	Real estate	100	14.48
7	Telecoms, media and technology	106	15.40
			Total 691



Sector		Vol	%
1	Consumer and healthcare	1,887	19.75
2	Energy and natural resources	792	8.29
3	Financial institutions	1,029	10.77
4	General industries	2,437	25.50
5	Infrastructure and transport	626	6.55
6	Real estate	826	8.64
7	Telecoms, media and technology	1,958	20.49
			Total 9,555

Activists turn up heat on board performance

The threat posed by activist investors continues to generate M&A activity, although not always in the way they intended. PPG's bid for AkzoNobel (AN) was backed by the hedge fund Elliott Advisors, which sued AN's CEO in an attempt to force the deal through. After fending off the approach, AN's board is reviewing ways to streamline its operations to discourage further bids, including possibly spinning off its speciality chemicals division. Kraft Heinz's failed approach for Unilever is regarded as the trigger for the UK-Dutch company to put its spreads business up for sale. And the recent acquisition by Third Point (Dan Loeb) of a stake in Nestlé is linked to demands that the Swiss group offload its remaining 23 per cent stake in L'Oréal. In the current climate, boards seem to be more exposed to any sign of strategic weakness. In response we expect further divestments of non-core assets in sectors like chemicals, industrial manufacturing and consumer as boards are driven to 'think lean and innovate'.

Regulatory divergence puts pressure on deal strategy

The European Commission has generally been willing to consider novel 'theories of harm', for example that big mergers can stifle innovation or that algorithms can potentially fix prices, and triggers for merger review have generally been aligned across the Atlantic. However, under President Trump, we expect US antitrust authorities to focus more on traditional competition law issues. US regulators are also likely to require more evidence of harm before challenging a transaction and be more accepting of remedies proposals that address competition concerns in order to achieve clearance. This divergence may decrease co-ordination (although not overall co-operation), which may affect deal timetables. In addition, struggles to appoint assistant secretary roles at the Committee on Foreign Investment in the United States (CFIUS) has slowed the deal-approval process for complicated cases. Early engagement with CFIUS is more important than ever.

Protectionism in the air (but not always on the ground)

The potential for increased protectionism in key European jurisdictions is gaining momentum. Last week the European Council discussed whether to introduce additional protections from certain foreign takeovers and agreed to analyse investments from third countries in strategic sectors. The UK government also announced plans to consolidate and strengthen its powers to protect national security. Finally, the Enterprise Chamber of the Amsterdam Appeals Court (which adjudicates on takeovers) seems to have changed its stance to be more aligned with public sentiment towards protectionism of 'national treasures' by declining to take action against AN for its rejection of PPG's bid, a court action instigated by AN investors. However, this increasingly protectionist atmosphere is not evident in all interventions. In Germany, political scrutiny of Chinese interest in technology assets has not stopped deals such as Midea's acquisition of Kuka going through.

Consequences of Chinese capital and lending controls

In the six months since the Chinese government began to tighten capital controls, delays in obtaining foreign exchange clearances meant outbound M&A dipped. Increased deal uncertainty means it is now the norm for Chinese buyers to pay an upfront deposit or provide a standby letter of credit on signing to secure closing risk. More recently, after China's foreign reserves rose above $3tn in March, capital controls seemed to be easing and Chinese banks showed renewed appetite to fund outbound acquisitions. However, as a result of concerns of over-exposure of Chinese banks, the China Banking Regulatory Commission has started to probe deal activities as well as warn banks to re-assess their exposure to the most prolific dealmakers such as Dalian Wanda, Anbang, Fosun and HNA. This appears to be part of wider measures to reduce systemic risk in the financial sector ahead of the all-important 19th Party Congress in the autumn.

Global M&A – value and volume (company nationality is determined by HQ location.)

Global

M&A value
$691bn

M&A volume
9,555 deals

Top 3 deals this quarter

1. CR Bard Inc/Becton Dickinson & Co (CHG) $24.2bn
2. Logicor Europe Ltd/China Investment Corp (ITG) $13.7bn
3. Whole Foods Market Inc/Amazon.com Inc (CHG) $13.6bn

Inbound: most targeted countries

USA	2,779 deals	$306bn
China	1,156 deals	$106bn
UK	615 deals	$40bn

Outbound: most acquisitive countries

USA	2,672 deals	$283bn
China	1,165 deals	$119bn
France	361 deals	$43bn

USA

M&A regional value
$306bn

M&A regional volume
2,779 deals

Top 3 deals this quarter

1. Huntsman Corp/Clariant AG (GIG) $10.4bn
2. Panera Bread Co/Investor Group (Leisure) $7.4bn
3. PAREXEL International Corp/Pamplona Capital Management LLP (GIG) $5bn

Inbound: countries investing into US companies

Switzerland	12 deals	$11bn
UK	56 deals	$9bn
Canada	123 deals	$8bn

Outbound: countries US companies are investing into

Germany	25 deals	$7bn
India	13 deals	$5bn
Canada	66 deals	$5bn

Europe

M&A regional value
$159bn

M&A regional volume
2,753 deals

Top 3 deals this quarter

1. Logicor Europe Ltd/China Investment Corp (ITG) $13.7bn
2. Christian Dior SE/Semyrhamis SA (CHG) $13bn
3. Christian Dior Couture SA/LVMH Moet Hennessy Louis Vuitton SA (CHG) $7bn

Inbound: countries investing into European companies

France	349 deals	$41bn
UK	569 deals	$21bn
USA	201 deals	$19bn

Outbound: countries European companies are investing into

France	340 deals	$38bn
USA	162 deals	$36bn
UK	515 deals	$18bn

Asia Pacific

M&A regional value
$185bn

M&A regional volume
3,205 deals

Top 3 deals this quarter

1. Endeavour Energy Pty Ltd/Investor Group (ENR) $5.6bn
2. Xiaoju Kuaizhi Inc/Investor Group (TMT) $5.5bn
3. Xiaoju Kuaizhi Inc /SoftBank Group Corp (TMT) $5bn

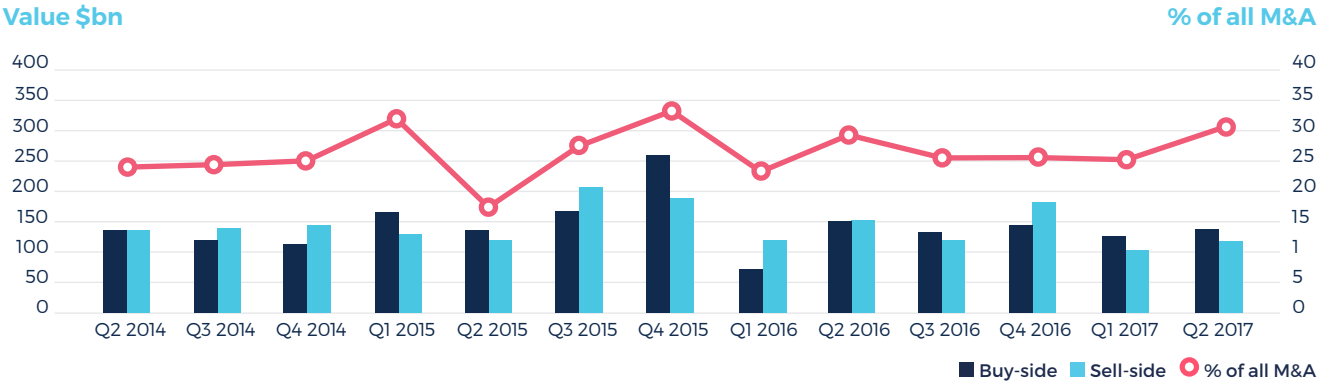
Inbound: countries investing into Asian companies

China	1,108 deals	$99bn
Japan	524 deals	$15bn
Australia	237 deals	$15bn

Outbound: countries Asian companies are investing into

China	1,177 deals	$120bn
Japan	583 deals	$24bn
Australia	281 deals	$20bn

Financial sponsor M&A



League tables

Global cross-border

1 Freshfields Bruckhaus Deringer	$49.1bn
2 DLA Piper	$37.5bn
3 Davis Polk & Wardwell	$37.1bn

Europe

1 Freshfields Bruckhaus Deringer	$48.3bn
2 DLA Piper	$37.9bn
3 Gianni Origoni Grippo Cappelli & Partners	$36.8bn

Source: Thomson One (Deals). Data as at 28 June.