



Freshfields Bruckhaus Deringer

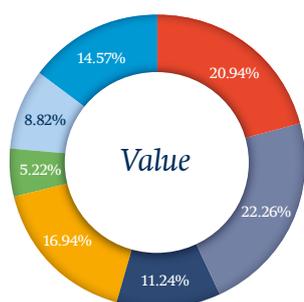
M&A monitor

State of the market
Q1 2017

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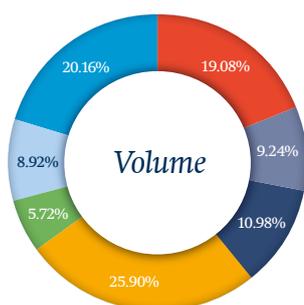
State of the market Q1 2017

Sectors



Sector	Value \$bn
Consumer and healthcare	165
Energy and natural resources	175
Financial institutions	88
General industries	133
Infrastructure and transport	41
Real estate	69
Telecoms, media and technology	115

Total 786



Sector	Volume
Consumer and healthcare	1,947
Energy and natural resources	943
Financial institutions	1,120
General industries	2,643
Infrastructure and transport	584
Real estate	910
Telecoms, media and technology	2,057

Total 10,204

Transformational M&A and the impact of geopolitics

Transformational M&A is a boardroom topic – many boards are optimistic about opportunities that may come their way while others, sensing unsolicited approaches, are revisiting their defence strategies. There are many things companies can do to prepare for transformational M&A, but we are in a period where geopolitical conditions may prove a significant barrier to deal progression, as we have seen on a number of transactions globally. We are seeing an increase in the length of time to complete cross-border deals, which reflects this reasoning, as well as an increase in M&A cross-border deals with regulatory reverse break fees (or equivalent) for cross-border deals, which are up from 21.4 per cent (2015) to 50 per cent (2016). This rise is a sign of bidders needing more optionality, and we anticipate cross-border M&A teams will continue to focus on this in future transactions.

US tax reform

Following Speaker Ryan's controversial health care bill, the odds that tax reform will take a more traditional approach – to broaden the base and lower the rate – have increased considerably. Speaker Ryan's more radical border adjustment tax proposal (exempt export revenues, deny deduction for imports) also faces opposition from importers and manufacturers with cross-border supply chains, making it increasingly unlikely to gain sufficiently broad support, particularly in the US Senate. Any tax reform plan that does gain broad backing is likely to include an end to deferral of overseas earnings, fuelling (or perhaps requiring) repatriation of \$2.4-\$3tn of earnings trapped overseas. Repatriation of this cash pool, coupled with lower US headline rates, is likely to cool US-led M&A outside the US and, to the extent stock buy-backs don't absorb the new cash inflows, heat up domestic US M&A activity (with activists no doubt ready to react to companies hoarding cash).

Liquid debt markets provide platform for M&A

Despite the significant political and economic events of 2016, the debt markets remained largely liquid in the US and Europe, and this has continued into 2017. The investment-grade market remains favourable to corporate borrowers, with historically tight pricing and an abundance of liquidity, in particular in the US, demonstrated by several large-scale M&A transactions last year. In the leveraged finance markets, liquidity is strong and issuance volumes have been high but there has been a shortage of new LBO situations to finance. Instead, we have seen a continuous recycling of credits as repricing, refinancing and recap transactions have dominated the landscape, leaving debt investors hungry for more M&A. We are seeing sponsors benefit through a combination of attractive pricing, higher leverage multiples and ever looser documentary terms. However, with the full calendar of political events in Europe, the new administration in the US and uncertainty around regulatory and monetary policy on both sides of the Atlantic (including the likelihood of further rate hikes by the Federal Reserve), corporate borrowers and financial sponsors alike will need to keep a close eye on market conditions both in Europe and the US and may need to seize opportunities, as market windows could well open and close quickly this year.

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



Financial sponsor M&A

