



Our Insights into M&A Trends: Global Dynamics  
December 2014

C L I F F O R D  
C H A N C E





## M&A – The Global Picture

As 2014 draws to a close, it is time to reflect on a strong year for M&A globally, and the opportunities that lie ahead in 2015

Deal values this year to date have topped US\$2.69trn – a level not seen since before the global financial crisis. We are seeing, in particular, cross-border and cross-regional M&A flourish, as corporates seek to expand their global footprints and enter new markets. For the moment financing deals is not a problem for many organisations – many have excess cash on their balance sheets, and global pools of liquidity for deployment in target markets are increasingly available from a growing range of sources and with very attractive pricing to those who are keen to access them.

The US has, once again, seen the lion's share of activity in 2014, with domestic, inbound and outbound M&A up significantly on previous years. Domestic and outbound activity have been driven in part by the increased values for listed equities, which have allowed companies to finance big deals with combinations of stock and cash. The first half of the year also saw a number of mega 'inversion' deals, before the US administration acted in September to make inversions more difficult to accomplish and to diminish their economic benefit.

As we move towards 2015, the picture is mixed: there are significant risks and challenges that have the potential to stall M&A activity in key regions in the months ahead – for example, should the growth rate in China slow further, political divides within the eurozone deepen, or political deadlock in the US return. Oil prices seem to be on a sustained, if volatile, downward trajectory, economic sanctions targeting Russia are continuing to bite, and a government election in the UK in May 2015 which, depending on the result, may cause renewed uncertainty on the UK's status within the EU – these factors are causing uncertainty currently, and their longer term effect on M&A activity in 2015 is by no means clear.

However we are very aware, through our work with our clients, that the risks and challenges can create attractive opportunities for those who are informed, agile and prepared to take manageable risks. We expect to see a number of trends developing in the year ahead, including: increasing M&A activity in Africa driven by both inbound investment and growing intra-African M&A flows; further diversification of the private equity industry as it adapts to the post-crisis environment; and continuing convergence of financing terms and market standards in acquisition financing.

A handwritten signature in black ink, appearing to read 'Guy Norman'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Guy Norman**

Global Head of Corporate, Clifford Chance LLP

# Global activity levels

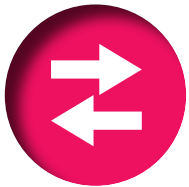
As we approach the end of 2014, we review M&A activity in the first 11 months of the year, identify some key trends from 2014 and look ahead to 2015



Global M&A activity in the first 11 months of 2014 has increased 42% compared to the same period in 2013, with overall deal values of US\$ 2.69trn (up from US\$ 1.90trn). Despite a marked loss of momentum during the third quarter, 2014 is expected to be the best year for M&A (by value) since 2007



The US market has performed strongly again this year, with deals totalling US\$ 1.185trn (a 54% increase year-on-year) and a 179% increase in inbound deals (by value). Central and South America activity recovered this year, with M&A increasing by 53% year-on-year, and Mexico in particular seeing some major deals such as Inmobiliaria Carso/América Móvil. Activity also increased in Europe (+37%) and Asia-Pacific (+31%) with Asia-Pacific seeing a rising number of deals worth over US\$1bn



M&A flows between the five main regions represented 25% of total global M&A deal value (up from 21% in the same period last year). Cross-border M&A also shot up, representing 42% of total M&A (up from 34% last year) and the highest proportion of total M&A (by value) seen since 2007. Outbound M&A from China is currently strongly focused on Europe, attracted by quality assets and the increasingly welcoming stance taken by several European governments



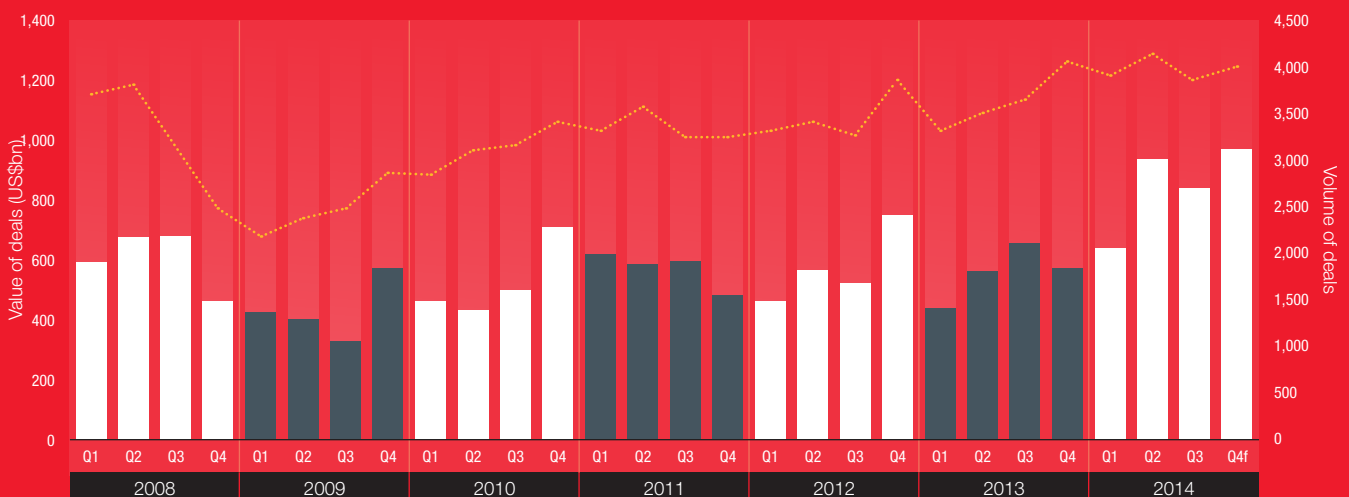
TMT and Energy continued to be the sectors with the strongest activity (by deal value) – currently standing at US\$ 547.3bn and US\$ 507.8bn respectively in the year to date. However the Healthcare and Consumer Goods/Retail sectors have been the hottest sectors in 2014, buoyed by several mega-deals such as Actavis/Forest Laboratories and Reynolds American/Lorillard – these two sectors outperformed the other sectors, seeing their market share of total deals increase by 3% and 2% respectively



The landscape for private equity is shifting, with a move towards greater diversification and an increasing focus on growth markets, particularly sub-Saharan Africa. Investment from China into Africa decreased significantly this year, but this decline was off-set by increased inbound investment from the US (deal values increased threefold year-on-year) and a 384% year-on-year increase in intra-African M&A

Source: Data produced by Remark, taken from mergermarket.com

## Global M&A Activity – Quarterly

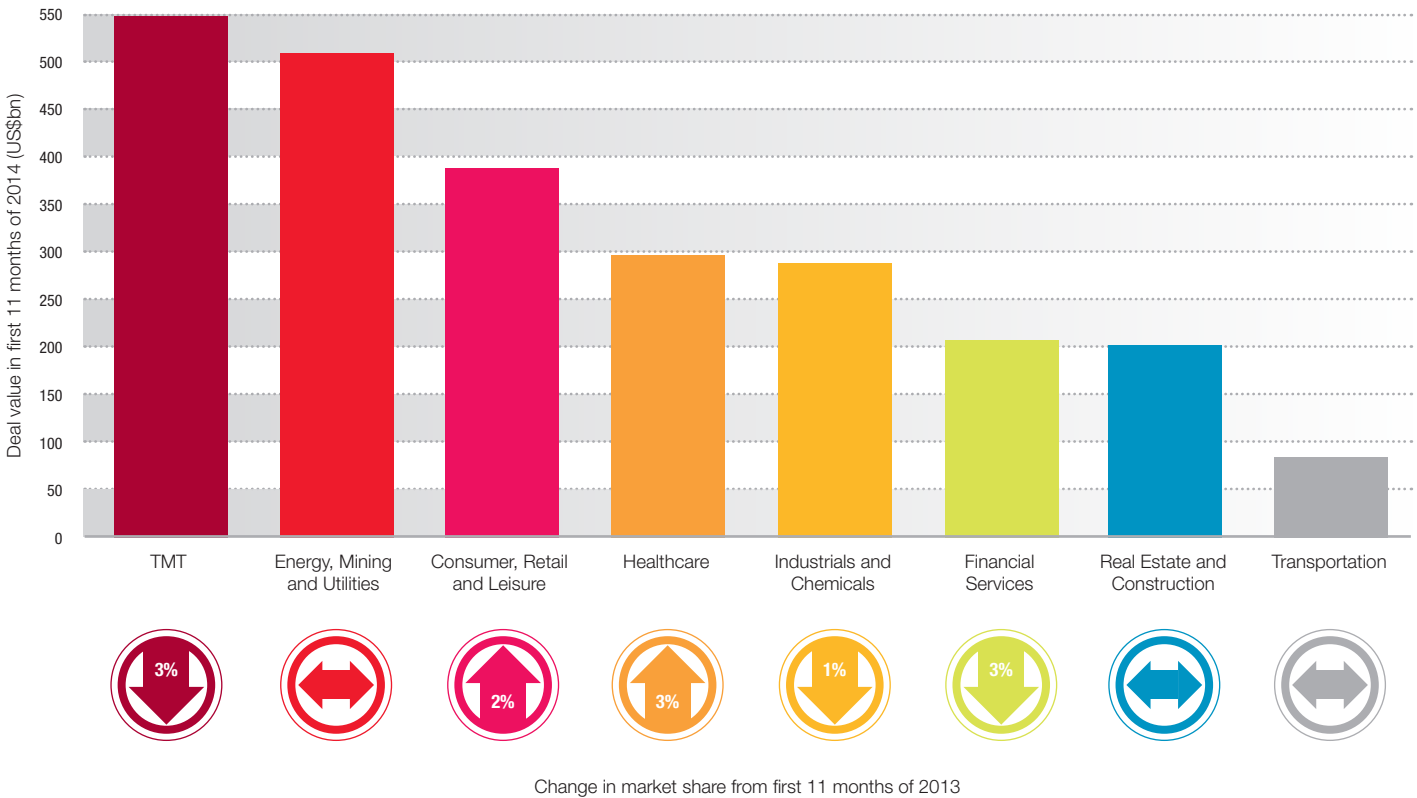


Source: Data produced by Remark, taken from mergermarket.com including Remark's Q4 forecast for 2014

■ Value of deals    ····· Number of deals

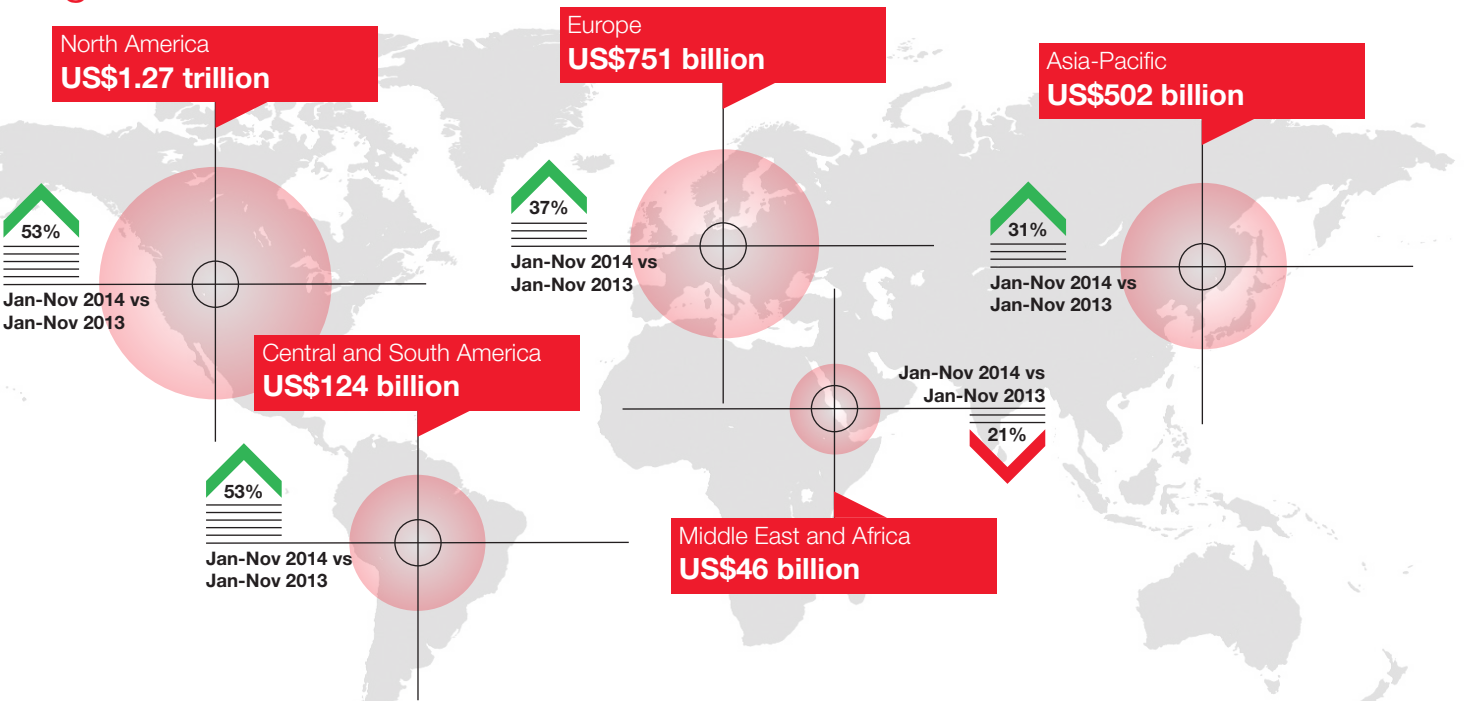
# Sector variations

TMT and Energy, Mining and Utilities continued to dominate global M&A activity this year. However Healthcare and Consumer Goods/Retail were the hottest sectors, both seeing year-on-year increases in their share of total M&A activity



Source: Data produced by Remark, taken from mergermarket.com

# Regional trends



Source: Data produced by Remark, taken from mergermarket.com

Note: Interactive maps showing investment flows into and out of each region are available on the Clifford Chance Global M&A Toolkit

# Views from our experts

Our experts share their views and insights on the latest trends in M&A

## M&A focus for 2015

The figures show that 2014 has been a strong year overall for global M&A, particularly large cross-border transactions in the pharma and TMT sectors. Despite the likelihood of continued geo-political and macroeconomic challenges and increased political and regulatory interference impacting M&A, I expect we will see some areas of very strong activity in 2015, for example in transatlantic M&A – possibly with “cash inversions” where US targets are acquired by foreign firms (principally or solely for cash) allowing the US target to move its tax base outside of the US coming to market – and with firms revisiting some of the major deals that failed during the year. I also expect that the Chinese government’s move to streamline its approval process for acquisitions will further strengthen cross-border flows from

China, particularly into Europe. Financial sponsor activity will fuel M&A in Africa and other key growth markets.



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## Private Equity and Growth Markets

The low growth environment across many developed economies has driven financial sponsors to diversify into new markets and focus on specialised sectors, such as pharma, energy and education, in the search for returns. High growth rates, an expanding consumer class and historic under penetration by private equity make Africa a current hot favourite. A string of high-profile exits, many using novel structures, has reinforced market confidence on the ability to deliver returns. Combined with new market entrants, including global buy-out houses and corporates, this is creating a platform for further growth in 2015. We expect market demographics to continue to drive activity in consumer facing industries across Africa such as retail, logistics and financial services.



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## TMT and Cyber-risk

The TMT sector has clearly been a hotbed for M&A in the past year and we expect this to continue. The underlying fundamentals provide clear support for consolidation and convergence, and the recent developments in the UK are a good example of this. Many of the combinations being contemplated have significant regulatory hurdles to clear and changes in the attitudes of antitrust authorities and other regulators will be worth keeping a close eye on.

In and beyond the TMT sector, cyber security and data privacy compliance issues continue to play an ever bigger role in M&A, both in the preparatory phase (through due diligence) and in the assurances sought in acquisition agreements.



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## Trends in M&A financing

Buoyant financing conditions for most of 2014 have been a significant factor in the increased M&A activity we have seen this year. With liquidity in the capital markets returning to more or less pre-crisis levels and the cost of financing remaining at a near record low, it made sense to do your deal in 2014. In addition to these macro-trends, we have seen continued development of capital structures, a growing choice of financing products, the emergence of new institutional lenders and a convergence of terms between financing products and in market standards. In spite of a period of volatility in the third quarter, particularly in the high yield and leveraged loan markets, we expect investor enthusiasm for M&A financing to continue strongly into 2015, with innovative and bespoke solutions continuing to be the norm for large-cap deals.



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