January 2019, Issue 82

M&A activity in December 2018 declined across most measures. While M&A activity reached 12-month lows both globally and in the U.S., the declines in the U.S. were significantly more pronounced. Deal volume by dollar value[1] decreased, by 55.2% to $65.36 billion in the U.S., and by 17.4% to $216.72 billion globally. In the U.S. the average value of announced public mergers declined to a 12-month low of $1.35 billion. Figure 4. The number of deals also decreased, by 17.3% to 430 in the U.S., and by 12.6% to 2,250 globally, hitting the lowest levels for number of deals both in the U.S. and globally in the history of this publication (below the previous record lows set in November).

Strategic vs. Sponsor Activity

Unlike November, the strategic M&A market – while still relatively weak – performed better than the sponsor market in December 2018. The number of strategic deals decreased in December 2018 by 7.5% to 347 in the U.S. and by 11.0% to 2,015 globally. Additionally, strategic volume by dollar value decreased by 40.8% to $49.51 billion in the U.S., but increased slightly by 1.2% to $173.82 billion globally. Figure 1 and Annex Figures 1A—4A. The number of sponsor-related deals decreased in the U.S. by 42.8% to 83 and globally by 24.2% to 235, and sponsor-related deal volume as measured by dollar value decreased in the U.S. by 74.6% to a 12-month low of $15.85 billion and globally by 52.7% to a 12-month low of $42.91 billion. Figure 1 and Annex Figures 1A—4A. Such declines in sponsor-related activity coincide with and may partially be explained by the recent weakness in the acquisition financing markets (particularly the high-yield markets) in December,[2] and general weakness in M&A dealmaking with overall equity market instability.

Crossborder Activity

The number of crossborder deals decreased globally by 15.8% to 516, and crossborder deal volume by dollar value decreased by 23.8% to $72.98 billion.

In the U.S., the number of U.S. inbound crossborder deals decreased in December 2018 by 6.6% to 85, and U.S. outbound transactions decreased by 26.3% to a 12-month low of 87. U.S. inbound activity as measured by dollar value decreased by 71.8% to $14.27 billion, and U.S. outbound volume by dollar value decreased by 10.1% to $9.13 billion. Figure 1 and Annex Figures 5A—7A.

Japan was the leading country for U.S. inbound activity by number of deals in the month of December (18), and Canada retained its lead for U.S. inbound activity by number of deals over the last 12-month period (340). The U.K. was the leading country for U.S. inbound activity as measured by total dollar value in December ($6.15 billion), and Canada retained its lead for U.S. inbound activity as measured by total dollar value over the last 12-month period ($81.76 billion). In both December and over the last 12-month period, the U.K. was again the leading destination country for U.S. outbound transactions by number of deals (23 and 309, respectively). France was the leading destination country for U.S. outbound activity by dollar value in December ($3.68 billion), driven primarily by Merck & Co.'s announced acquisition of Antelliq Holdings France SAS. The U.K, despite the ongoing uncertainty surrounding Brexit, retained its lead for U.S. outbound activity by dollar value over the last 12-month period ($89.74 billion). Figure 3.

U.S. Deals by Industry

Computers & Electronics remained the most active target industry by number of deals in December (112) and over the last 12 months (2,259). Consumer Products was the most active target industry by dollar value in December ($12.83 billion), driven primarily by Altria Group Inc.'s acquisition of a minority stake in JUUL Labs Inc. Computers & Electronics was the most active target industry by dollar value over the last 12 months ($325.11 billion). Figure 2.

U.S. Public Mergers

As for U.S. public merger deal terms in December 2018, average target break fees and average reverse break fees were both below their 12-month levels. Average target break fees were 3.3% (compared to a 12-month average of 3.7%), and average reverse break fees were 4.1% (compared to a 12-month average of 5.7%). Figures 6 and 7.

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[1] Each metric in this publication that references deal volume by dollar value is calculated from the subset of the total number of deals that includes a disclosed deal value.
[2] See *e.g.*, Daniel Kruger and Sam Goldfarb, *Junk-Bond Sale Ends 40-Day Market Drought*, The Wall Street Journal (January 10, 2019), https://www.wsj.com/articles/a-junk-bond-drought-is-making-investors-nervous-11547116200.
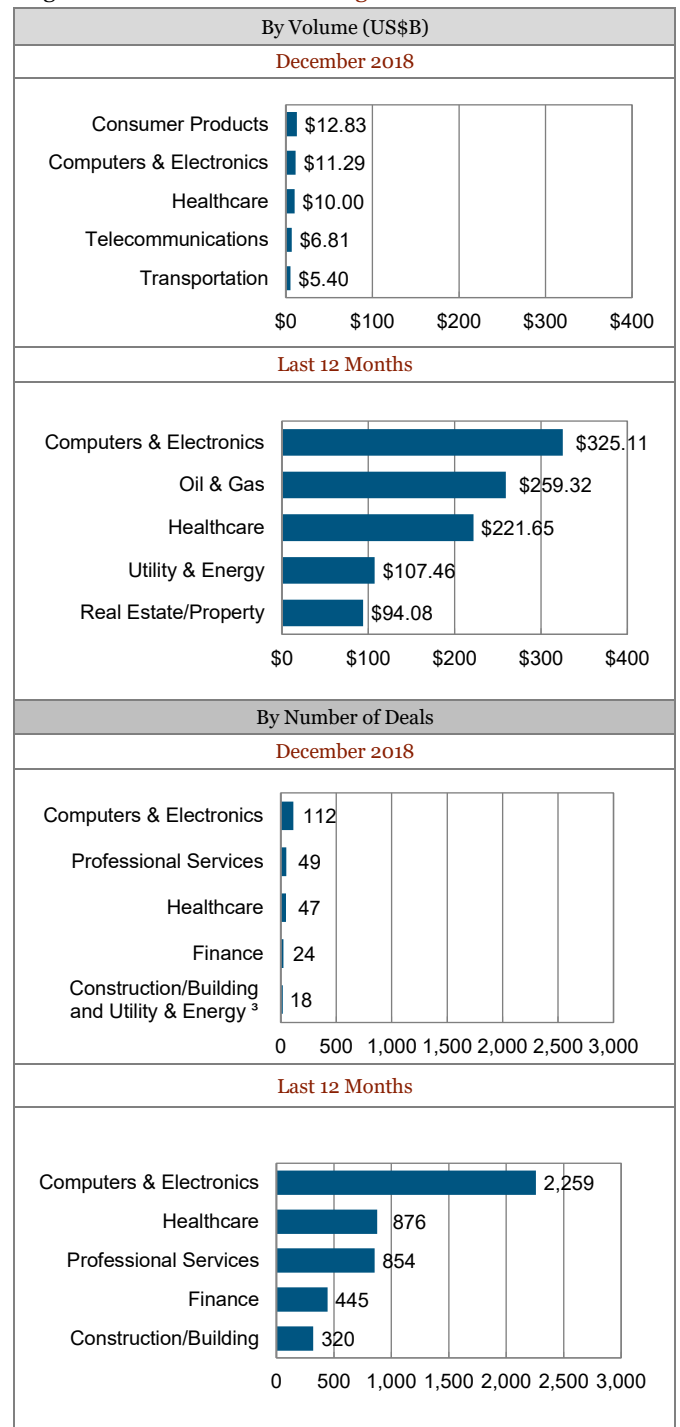
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M&A Activity

Figure 1

December 2018	Global	+/- From Prior Month	U.S.	+/- From Prior Month
Total				
Volume (US$B)	216.72	(45.71)	65.36	(80.66)
No. of deals	2,250	(324)	430	(90)
Avg. value of deals (US$mil)	96.3	(5.6)	152.0	(128.8)
Strategic Transactions				
Volume (US$B)	173.82	2.09	49.51	(34.11)
No. of deals	2,015	(249)	347	(28)
Avg. value of deals (US$mil)	86.3	10.4	142.7	(80.3)
Sponsor-Related Transactions				
Volume (US$B)	42.91	(47.81)	15.85	(46.54)
No. of deals	235	(75)	83	(62)
Avg. value of deals (US$mil)	182.6	(110.0)	190.9	(239.4)
Crossborder Transactions[1]				
Volume (US$B)	72.98	(22.75)	Inbound 14.27 Outbound 9.13	Inbound (36.28) Outbound (1.03)
No. of deals	516	(97)	Inbound 85 Outbound 87	Inbound (6) Outbound (31)
Avg. value of deals (US$mil)	141.4	(14.7)	Inbound 167.9 Outbound 105.0	Inbound (387.7) Outbound 18.8

Figures 1-3 were compiled using data from Dealogic, and are for the broader M&A market, including mergers of any value involving public and/or private entities. Deal volume by dollar value and average value of deals are calculated from the subset of the total number of deals that include a disclosed deal value. Figures 4 and 5 were compiled using data from FactSet MergerMetrics, and are limited to mergers involving public U.S. targets announced during the period indicated and valued at $100 million or higher regardless of whether a definitive merger agreement was reached and filed or withdrawn. All data is as of January 10, 2019 unless otherwise specified. "Last 12 Months" data is for the period from January 2018 to December 2018 inclusive. Data obtained from Dealogic and FactSet MergerMetrics has not been reviewed for accuracy by Paul, Weiss.
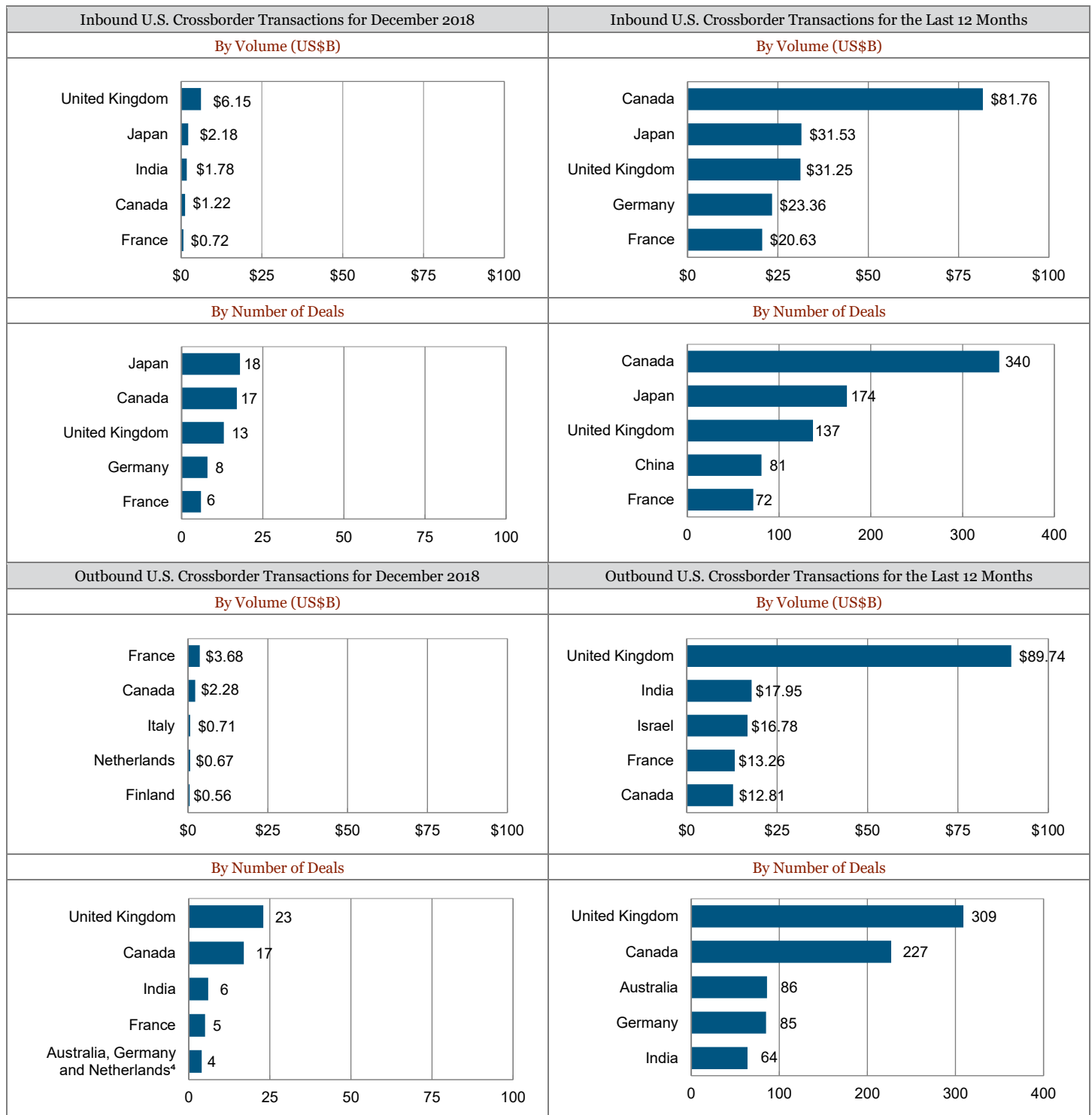
Figure 2 – Most Active U.S. Target Industries[2]

By Volume (US$B)

December 2018

Consumer Products: $12.83
Computers & Electronics: $11.29
Healthcare: $10.00
Telecommunications: $6.81
Transportation: $5.40

Last 12 Months

Computers & Electronics: $325.11
Oil & Gas: $259.32
Healthcare: $221.65
Utility & Energy: $107.46
Real Estate/Property: $94.08

By Number of Deals

December 2018

Computers & Electronics: 112
Professional Services: 49
Healthcare: 47
Finance: 24
Construction/Building and Utility & Energy[3]: 18

Last 12 Months

Computers & Electronics: 2,259
Healthcare: 876
Professional Services: 854
Finance: 445
Construction/Building: 320

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[1] Global crossborder transactions are those where the acquirer and the target have different nationalities. Nationality is based on where a company has either its headquarters or a majority of its operations. U.S. crossborder transactions are those transactions where the acquirer and the target have different nationalities and either the acquirer ("Outbound") or the target ("Inbound") has a U.S. nationality.

[2] Industries categories are determined and named by Dealogic.

[3] Each of Construction/Building and Utility & Energy was the target industry for 18 transactions in December.

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Figure 3 – Top 5 Countries of Origin or Destination for U.S. Crossborder Transactions

Inbound U.S. Crossborder Transactions for December 2018	Inbound U.S. Crossborder Transactions for the Last 12 Months

By Volume (US$B)

United Kingdom	$6.15
Japan	$2.18
India	$1.78
Canada	$1.22
France	$0.72

Canada	$81.76
Japan	$31.53
United Kingdom	$31.25
Germany	$23.36
France	$20.63

By Number of Deals

Japan	18
Canada	17
United Kingdom	13
Germany	8
France	6

Canada	340
Japan	174
United Kingdom	137
China	81
France	72

Outbound U.S. Crossborder Transactions for December 2018	Outbound U.S. Crossborder Transactions for the Last 12 Months

By Volume (US$B)

France	$3.68
Canada	$2.28
Italy	$0.71
Netherlands	$0.67
Finland	$0.56

United Kingdom	$89.74
India	$17.95
Israel	$16.78
France	$13.26
Canada	$12.81

By Number of Deals

United Kingdom	23
Canada	17
India	6
France	5
Australia, Germany and Netherlands[4]	4

United Kingdom	309
Canada	227
Australia	86
Germany	85
India	64

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[4]   Each of Australia, Germany and the Netherlands was the country of origin for four transactions in December 2018.

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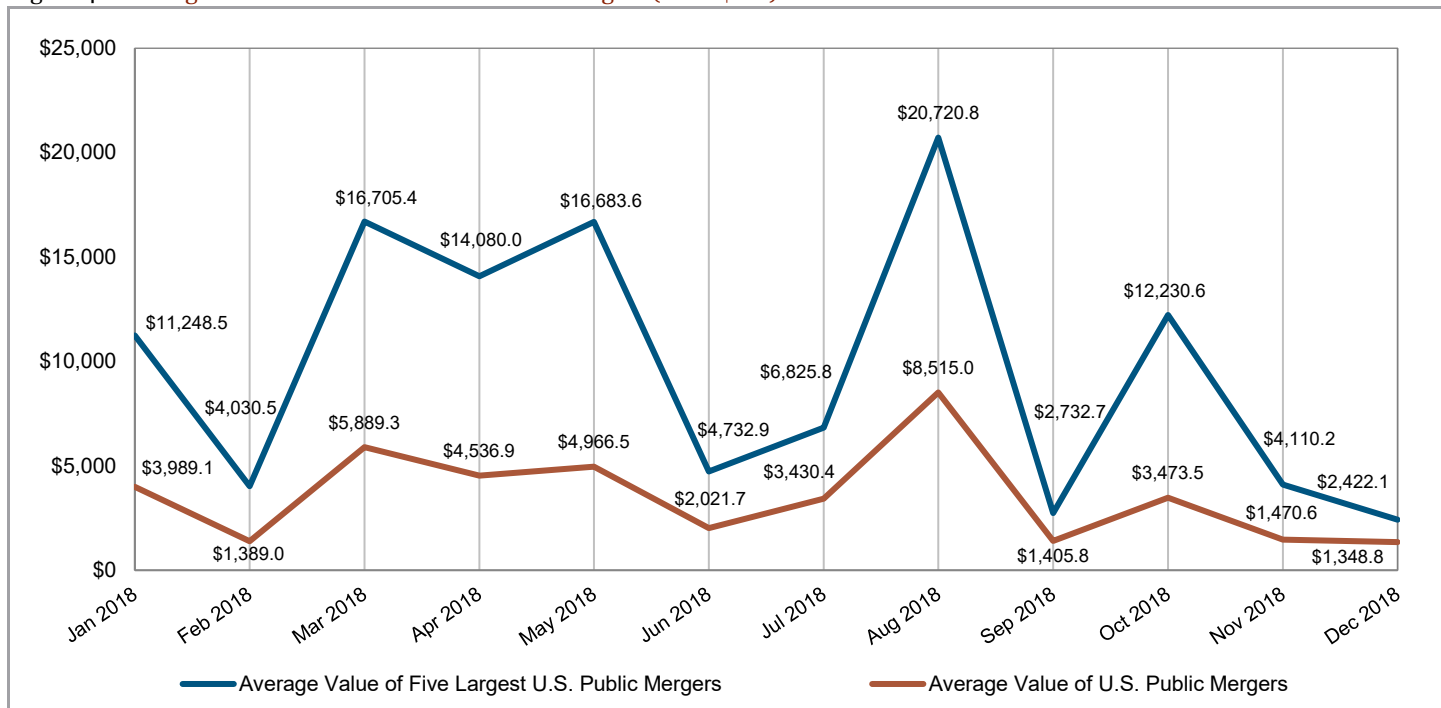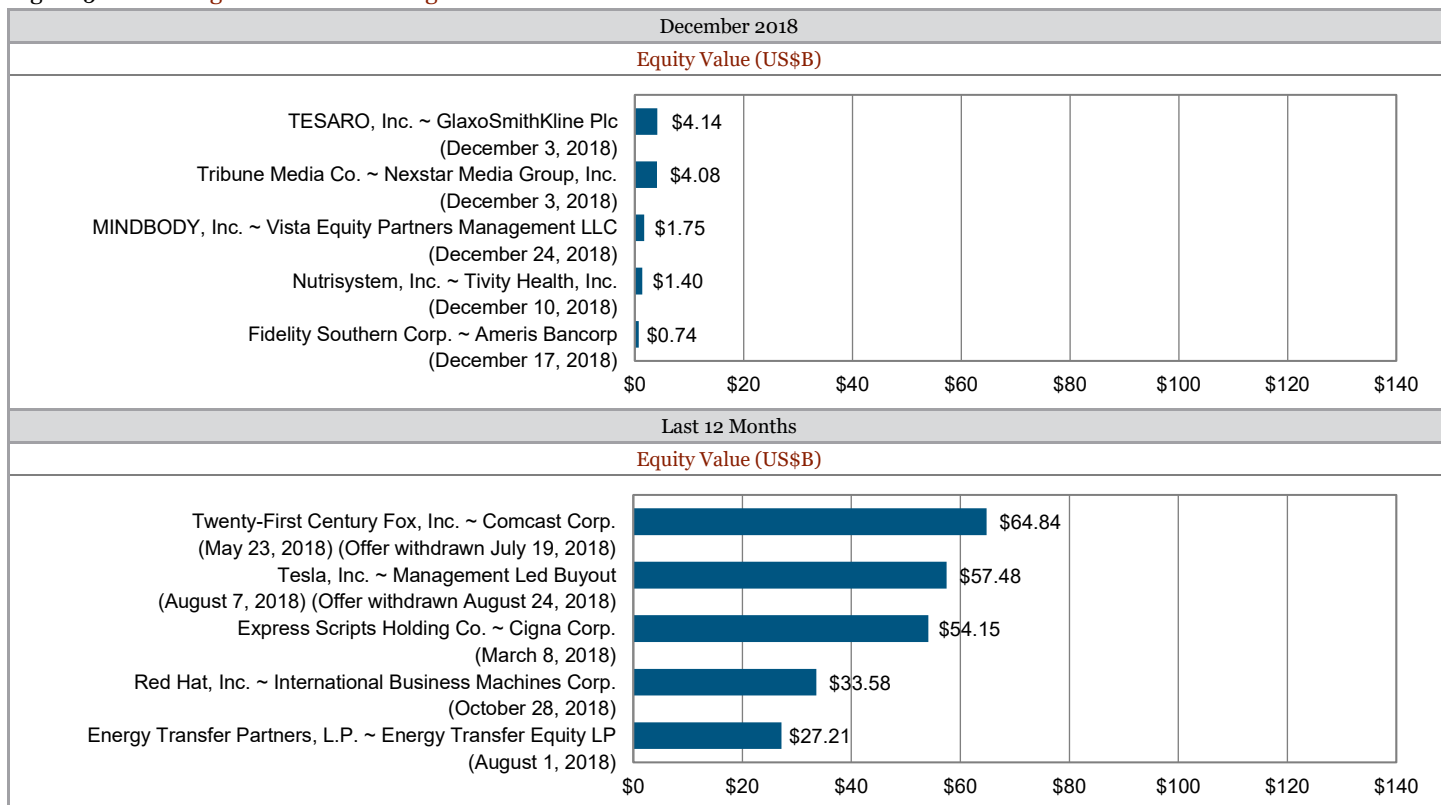Figure 4 – Average Value of Announced U.S. Public Mergers (in US$mil)

Figure 5 – Five Largest U.S. Public Mergers

December 2018
Equity Value (US$B)

TESARO, Inc. ~ GlaxoSmithKline Plc (December 3, 2018)	$4.14
Tribune Media Co. ~ Nexstar Media Group, Inc. (December 3, 2018)	$4.08
MINDBODY, Inc. ~ Vista Equity Partners Management LLC (December 24, 2018)	$1.75
Nutrisystem, Inc. ~ Tivity Health, Inc. (December 10, 2018)	$1.40
Fidelity Southern Corp. ~ Ameris Bancorp (December 17, 2018)	$0.74

Last 12 Months
Equity Value (US$B)

Twenty-First Century Fox, Inc. ~ Comcast Corp. (May 23, 2018) (Offer withdrawn July 19, 2018)	$64.84
Tesla, Inc. ~ Management Led Buyout (August 7, 2018) (Offer withdrawn August 24, 2018)	$57.48
Express Scripts Holding Co. ~ Cigna Corp. (March 8, 2018)	$54.15
Red Hat, Inc. ~ International Business Machines Corp. (October 28, 2018)	$33.58
Energy Transfer Partners, L.P. ~ Energy Transfer Equity LP (August 1, 2018)	$27.21

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M&A Terms

Figure 6 – Average Break Fees as % of Equity Value[5]
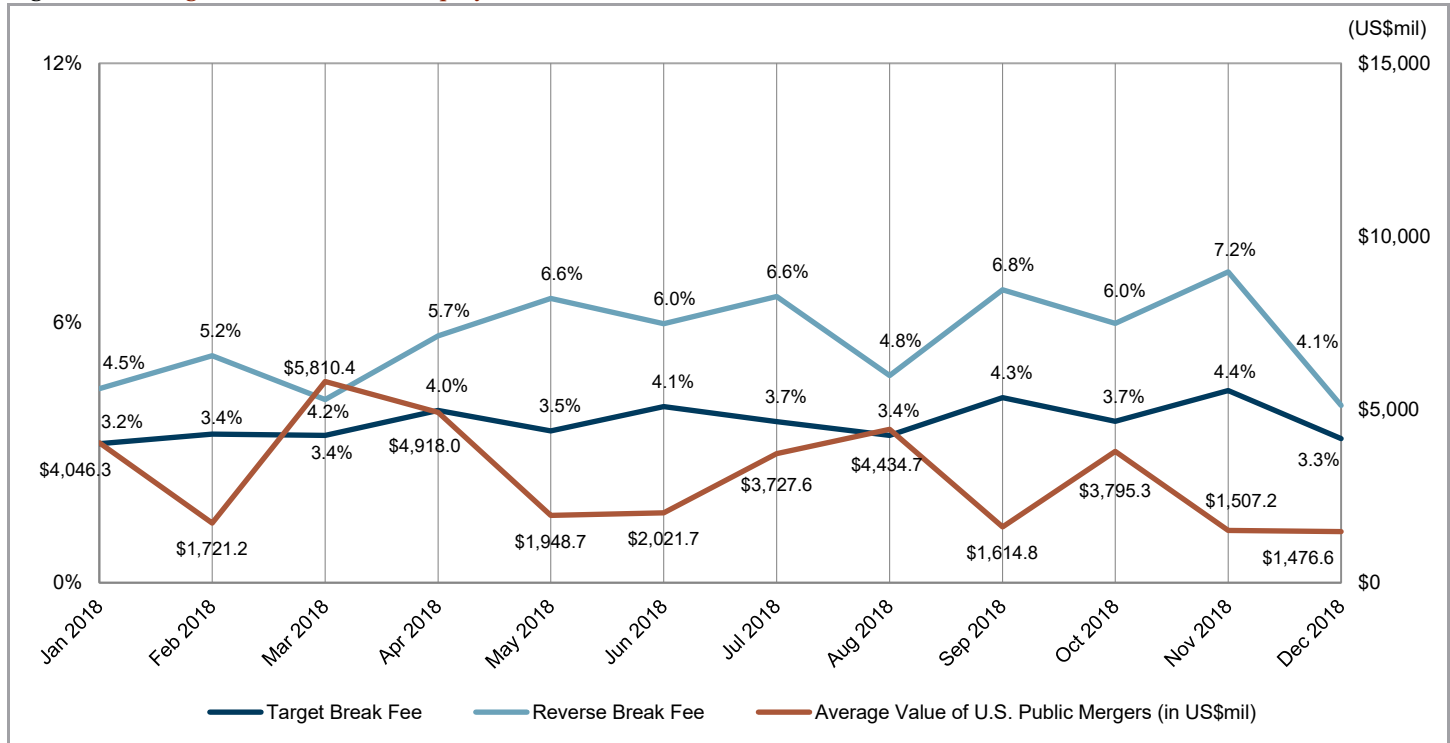
Figure 7 – Average Break Fees as % of Equity Value[6]

	December 2018	Last 12 Months
Target Break Fee for All Mergers	3.3	3.7

	December 2018	Last 12 Months
Reverse Break Fee for All Mergers[7]	4.1	5.7
Reverse Break Fee for Mergers Involving Financial Buyers[8]	5.6	6.9
Reverse Break Fee for Mergers Involving Strategic Buyers[9]	1.0	5.3

Figures 6-12 were compiled using data from FactSet MergerMetrics, and are limited to select mergers involving public U.S. targets announced during the period indicated, valued at $100 million or higher and for which a definitive merger agreement was reached and filed (unless otherwise indicated). Data obtained from FactSet MergerMetrics has not been reviewed for accuracy by Paul, Weiss.

Figure 8 – U.S. Public Merger Go-Shop Provisions[10]

	December 2018	Last 12 Months
% of Mergers with Go-Shops	11.1	8.6
% of Mergers Involving Financial Buyers with Go-Shops[11]	33.3	23.1
% of Mergers Involving Strategic Buyers with Go-Shops	0.0	6.0
Avg. Go-Shop Window (in Days) for All Mergers with Go-Shops[12]	30.0	38.7
Avg. Go-Shop Window (in Days) for Mergers Involving Financial Buyers with Go-Shops[13]	30.0	36.8
Avg. Go-Shop Window (in Days) for Mergers Involving Strategic Buyers with Go-Shops[14]	N/A	39.9

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[5]   Based on the highest target break fees and reverse break fees payable in a particular deal.
[6]   Financial and strategic categories are determined by FactSet MergerMetrics.
[7]   Three transactions in December 2018 had a reverse break fee.
[8]   Two transactions in December 2018 involving a financial buyer had a reverse break fee.
[9]   One transaction in December 2018 involving a strategic buyer had a reverse break fee.
[10]   Financial and strategic categories are determined by FactSet MergerMetrics.
[11]   Three transactions in December 2018 involved a financial buyer.
[12]   One transaction in December 2018 had a go-shop provision.
[13]   One transaction in December 2018 involving a financial buyer had a go-shop provision.
[14]   No transactions in December 2018 involving a strategic buyer had a go-shop provision.

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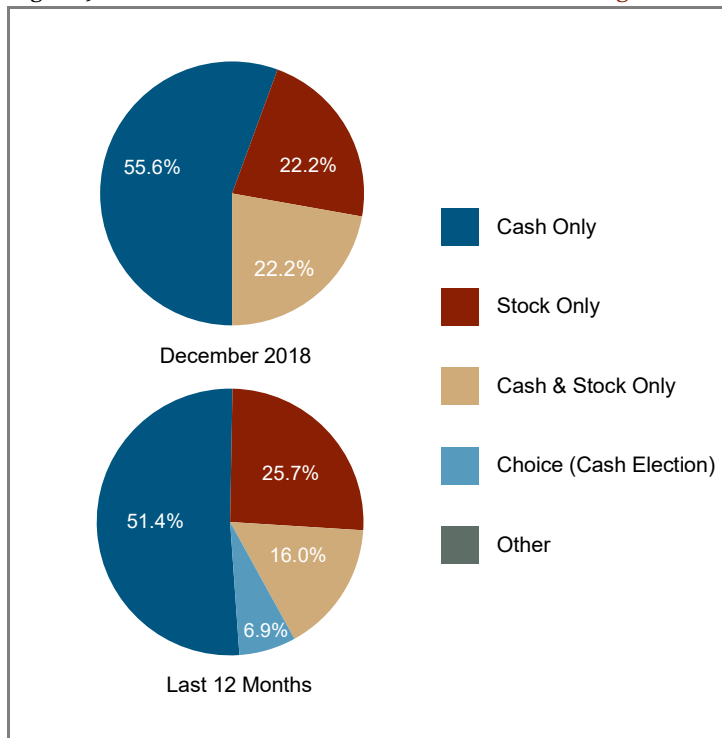Figure 9 – Form of Consideration as % of U.S. Public Mergers[15]

December 2018

- 55.6% Cash Only
- 22.2% Stock Only
- 22.2% Cash & Stock Only

Last 12 Months

- 51.4% Cash Only
- 25.7% Stock Only
- 16.0% Cash & Stock Only
- 6.9% Choice (Cash Election)

Legend:
- Cash Only
- Stock Only
- Cash & Stock Only
- Choice (Cash Election)
- Other

Figure 10 – % of Partial and All Stock Deals That Have a Fixed Exchange Ratio

December 2018	75.0
Last 12 Months	97.3

Figure 11 – Tender Offers as % of U.S. Public Mergers

December 2018	11.1
Last 12 Months	11.4

Figure 12 – Hostile/Unsolicited Offers as % of U.S. Public Mergers[16]

December 2018	10.0
Last 12 Months	12.3

[15] Due to rounding, percentages may not add up to 100%.
[16] This data includes both announced transactions for which a definitive merger agreement was reached and filed and those for which a definitive merger agreement was never reached and filed (including withdrawn transactions).

Paul, Weiss is a leading law firm serving the largest publicly and privately held corporations and financial institutions in the United States and throughout the world. Our firm is widely recognized for achieving an unparalleled record of success for our clients, both in their bet-the-company litigations and their most critical strategic transactions. We are keenly aware of the extraordinary challenges and opportunities facing national and global economies and are committed to serving our clients' short- and long-term goals.

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This publication is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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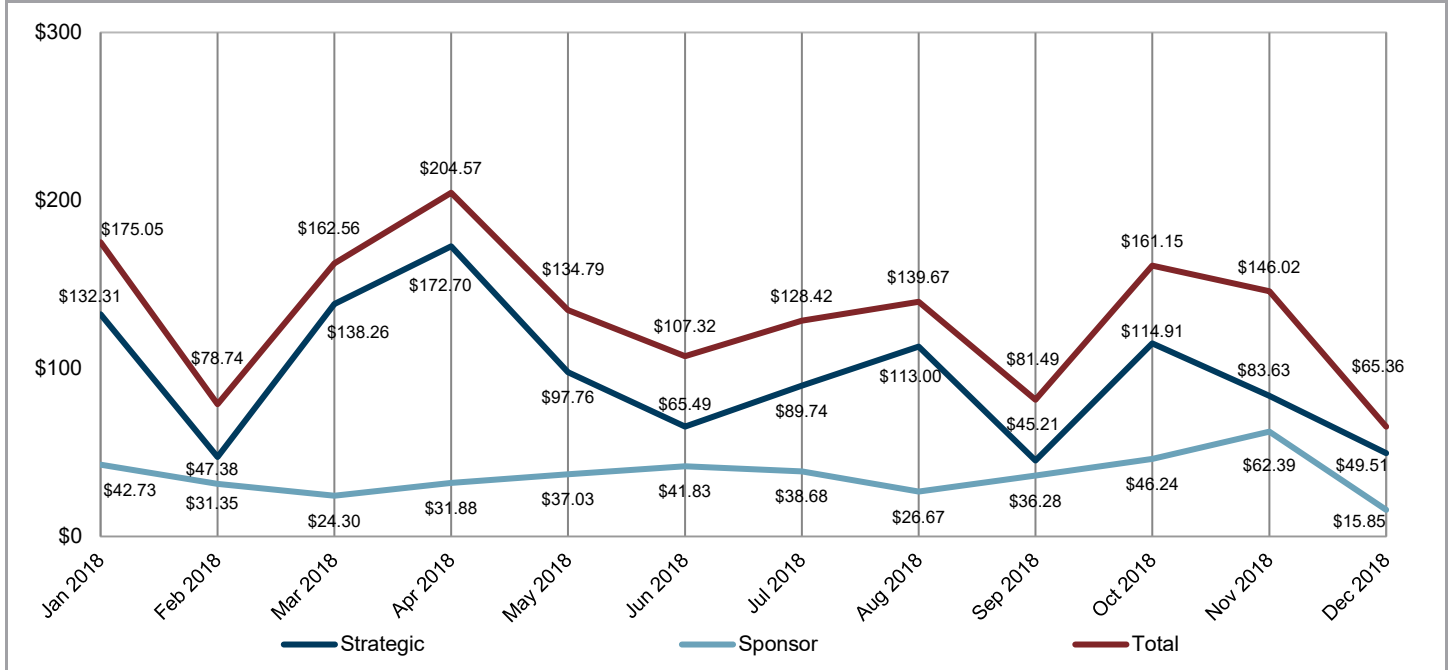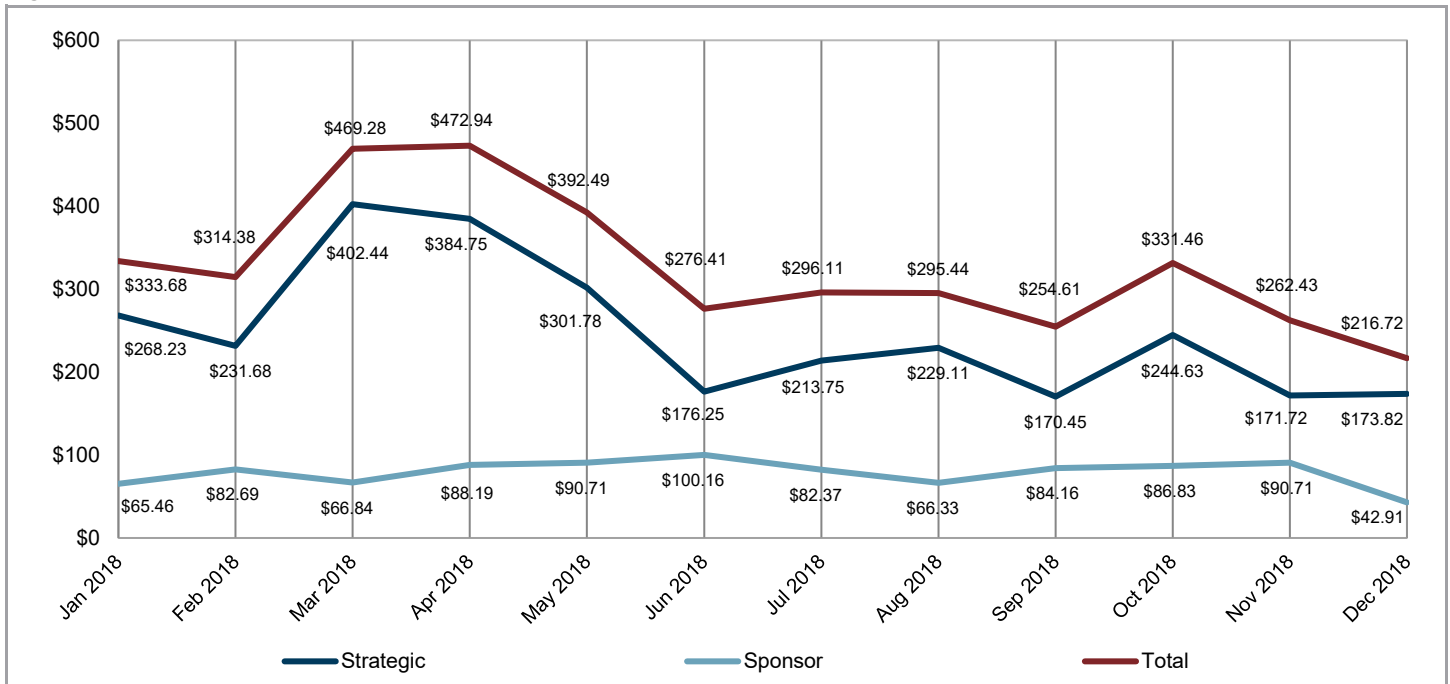# M&A Activity – 12-Month Trends

Figure 1A – U.S. Deal Volume (US$B)

Figure 2A – Global Deal Volume (US$B)

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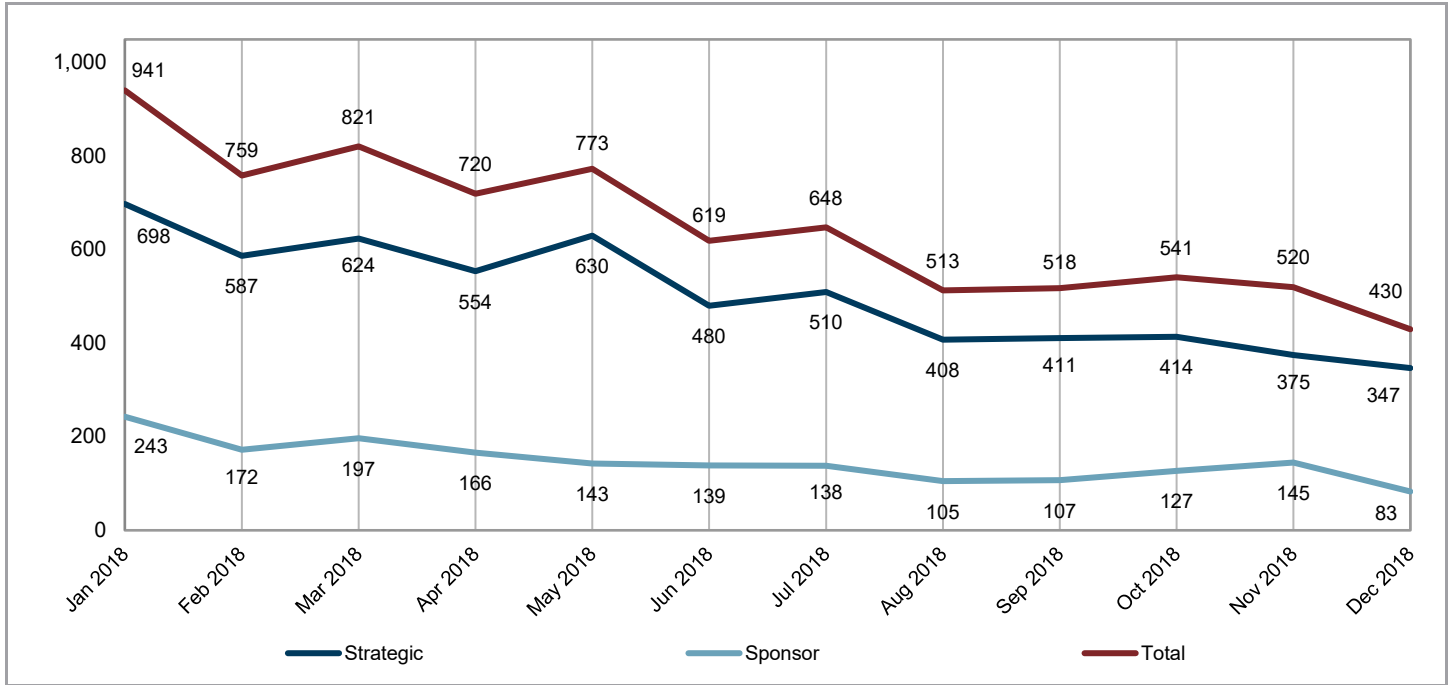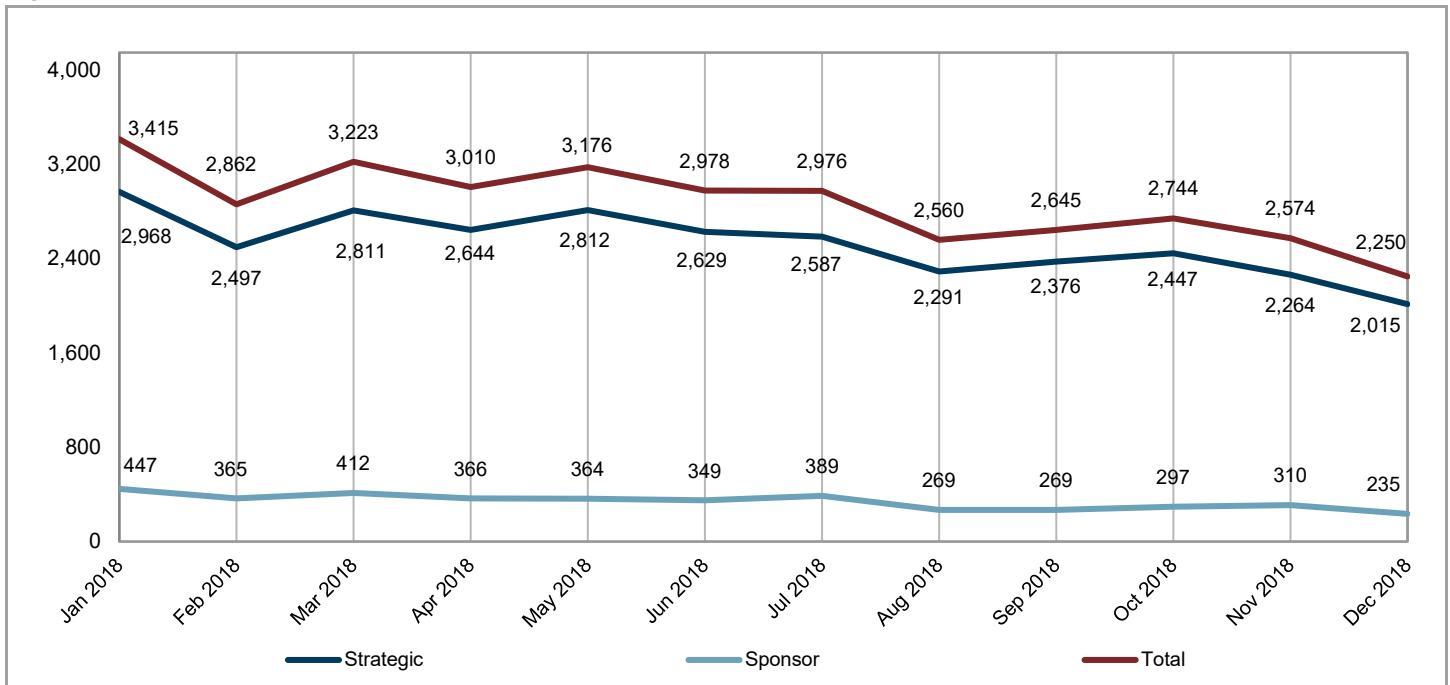**M&A** AT A GLANCE ANNEX

Figure 3A – U.S. Number of Deals

Figure 4A – Global Number of Deals

Return to Summary

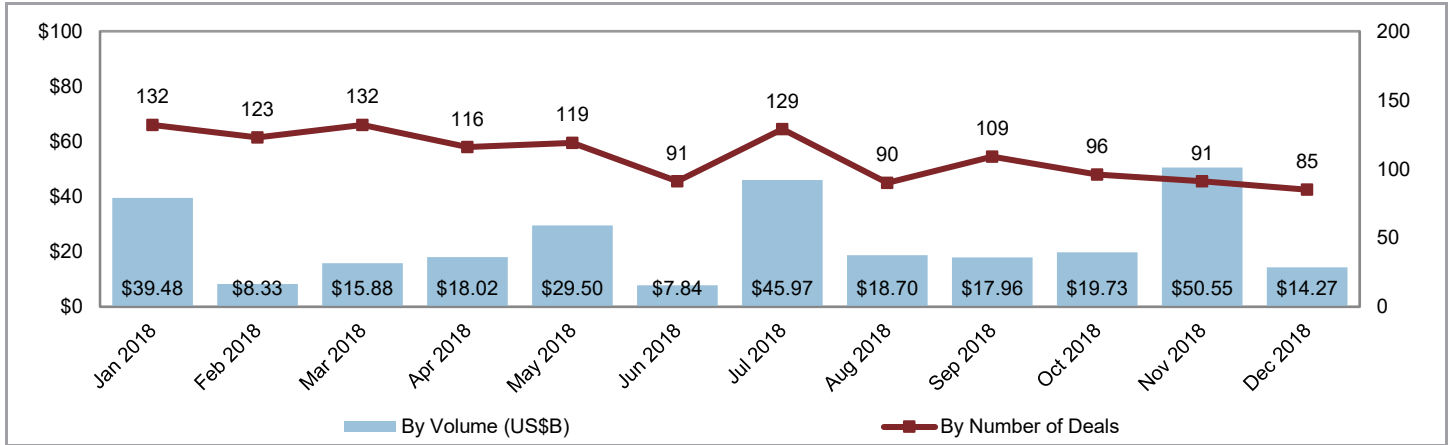Figure 5A – Inbound U.S. Crossborder Transactions
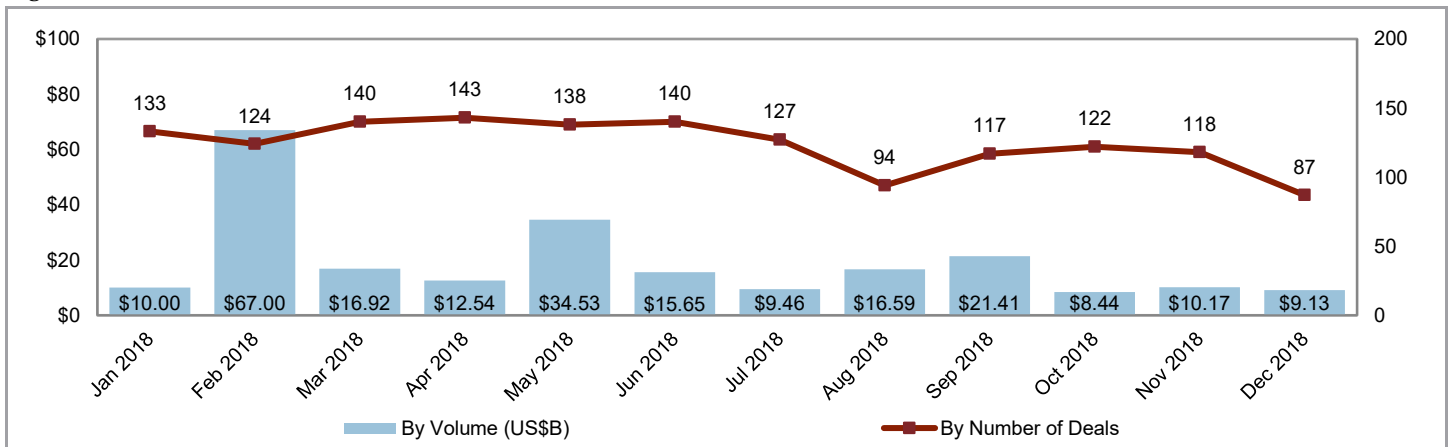

Figure 6A – Outbound U.S. Crossborder Transactions

Figure 7A – Global Crossborder Transactions