M&A AT A GLANCE

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M&A at a Glance – 2018 Year-End Roundup

2018 was an up-year for M&A as compared to 2017. Global deal volume[1] for the year was $3.92 trillion and U.S. deal volume was $1.59 trillion (up 14.7% and 15.5%, respectively, from 2017). Sponsor-related deal volume for the year was $947.22 billion globally and $435.24 billion in the U.S. (up 6.3% and 1.3%, respectively, from 2017). Strategic deal volume was $2.98 trillion globally and $1.15 trillion in the U.S. (up 17.6% and 22.0%, respectively, from 2017). Figure 1. The average value of U.S. public mergers increased by 5.2% from 2017 levels (from $3.39 billion to $3.56 billion), however the average value of the ten largest U.S. public mergers declined from prior levels for the second year in a row (from $39.09 billion to $34.26 billion). Figure 2. Despite these overall increases, however, weakness towards year-end (with month-over-month declines in both November and December) may foreshadow possible softness in 2019.

Global crossborder deal volume increased 23.0% relative to 2017. Crossborder transactions involving U.S. companies also increased in 2017, with U.S. inbound and outbound transactions increasing by 4.6% and 31.4%, respectively. Figure 1. Canada maintained its lead in both investments by volume and number of deals for inbound U.S. transactions. The U.K. remained the leading country in both investments by volume and number of deals for outbound U.S. transactions, despite the ongoing uncertainty over Brexit. Figure 3.

In terms of M&A activity by sector, the top five U.S. target industries by volume for 2018 were Computers & Electronics, Oil & Gas, Healthcare, Utility & Energy and Real Estate/Property. Telecommunications, which was among the top five target industries in 2017, dropped out of the top five target industries in 2018. The number of deals for each of these top sectors decreased from their 2017 levels, although activity as measured by dollar value increased for Computers & Electronics, Oil & Gas and Utility & Energy sectors. Figure 4.

On the U.S. public merger front, there were a few noteworthy observations from 2018:

- Target break fees remain consistent with prior year levels, increasing from 3.6% in 2017 to 3.7% in 2018
- Reverse break fees decreased from 6.1% in 2017 to 5.7% in 2018. Reverse break fees in sponsor-related transactions decreased from 7.5% in 2017 to 6.9% in 2018, and reverse break fees in strategic transactions decreased from 5.6% in 2017 to 5.3% in 2018, respectively. Figure 5.
- The percentage of all cash transactions fell for the second year in a row, from 60.2% in 2017 to 51.4% in 2018, with all stock transactions increasing from 21.5% in 2017 to 25.7% in 2018. The percentage of cash and stock transactions increased from 11.0% in 2017 to 16.0% in 2018. Figure 6.
- The percentage of two-step transactions fell significantly in 2018, decreasing to 11.4% of U.S. mergers from 20.4% in 2017. Figure 7.
- The percentage of U.S. public mergers that were hostile or unsolicited increased from 10.7% in 2017 to 12.3% in 2018. Figure 9.
- The use of go-shop provisions in U.S. public mergers increased from 6.7% in 2017 to 8.6% in 2018. The use of go-shop provisions in mergers involving financial buyers increased significantly from 10.3% in 2017 to 23.1% in 2018, whereas the use of go-shop provisions in mergers involving strategic buyers remained relatively flat, increasing from 5.9% in 2017 to 6.0% in 2018. The average go-shop window, as measured in days, for mergers involving financial buyers decreased from 46.7 days in 2017 to 36.8 days in 2018. Figure 8.

As mentioned above, weakness in M&A activity at the end of 2018 may foreshadow slower dealmaking in 2019. Recent weakness in the acquisition financing markets (particularly in leveraged loan markets, where loan issuance fell 25% throughout 2018[2] and in high-yield markets in December[3]), volatility in equity markets and continued political risk both in the U.S. and abroad (e.g., Brexit) could all contribute to decreased M&A activity.

[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.

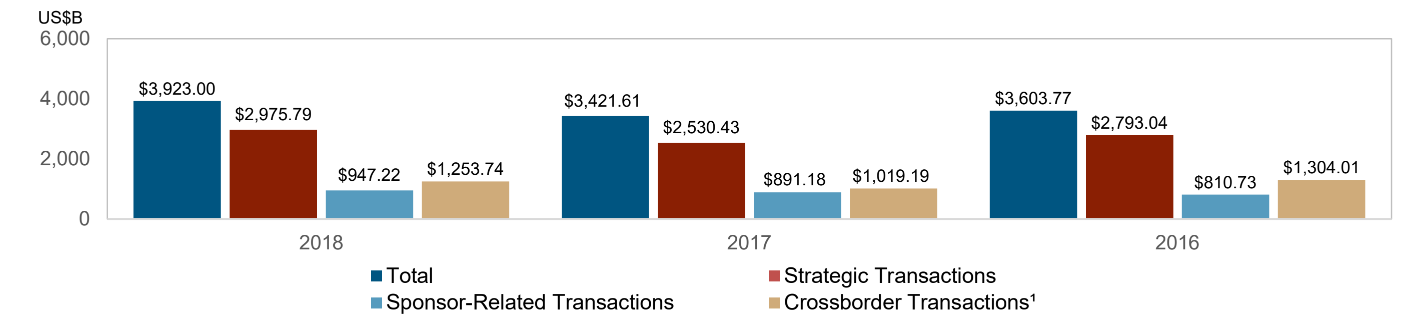
[2] This statistic was selected from data compiled by Bloomberg as part of their weekly credit brief published January 3, 2019. Data obtained from Bloomberg has not been reviewed for accuracy by Paul, Weiss.

[3] 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.

M&A Activity

Figure 1 – Deal Volume

Global



U.S.

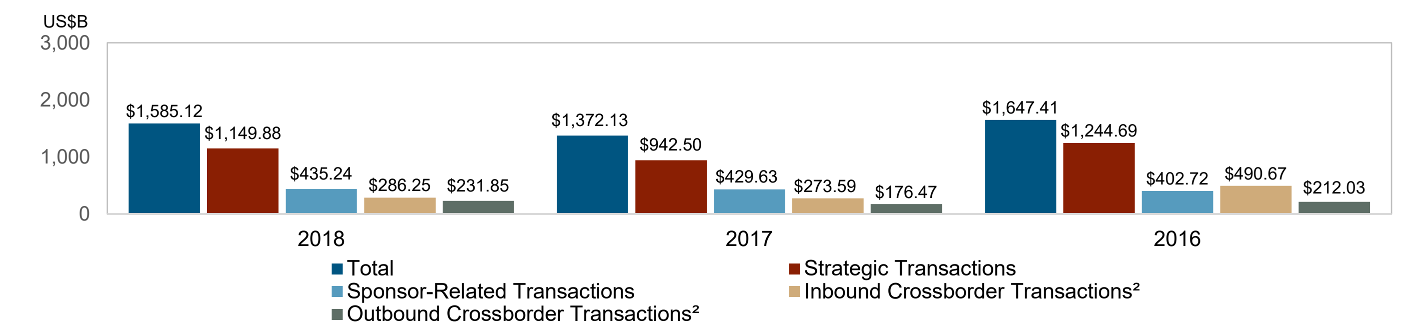
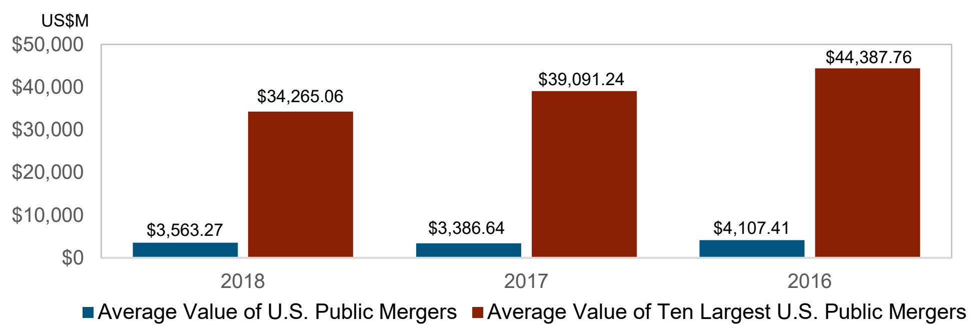


Figure 2 – Average Value of Announced U.S. Public Mergers



Figures 1, 3 and 4 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. Figure 2 was compiled using data from FactSet MergerMetrics, and is 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, 2018 unless otherwise specified. Data obtained from Dealogic and FactSet MergerMetrics has not been reviewed for accuracy by Paul, Weiss.

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.

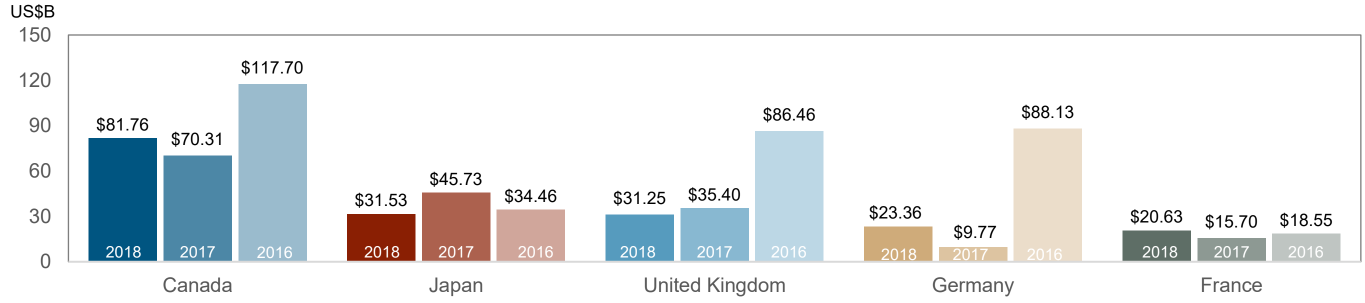
2 U.S. crossborder transactions are those transactions where the acquirer and the target have different nationalities and either the acquirer (“Outbound”) or the target (“Inbound”) has a U.S. nationality.

M&A Activity (*Continued*)

Figure 3 – Top 5 Countries of Origin or Destination for 2018 U.S. Crossborder Transactions and Prior Year Comparisons[2]

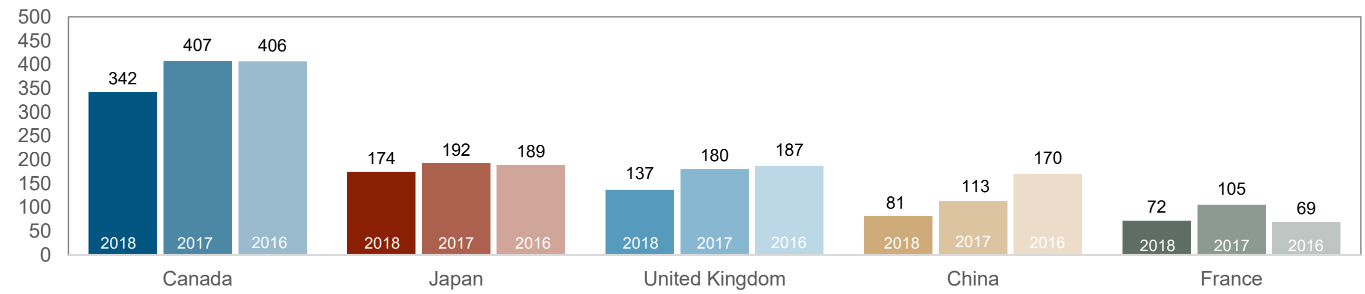
Inbound U.S. Crossborder Transactions

By Volume (US$B)



Note: In 2017 and 2016, China was ranked among the top five countries of origin with volumes of US$B 13.88 and US$B 63.55, respectively.

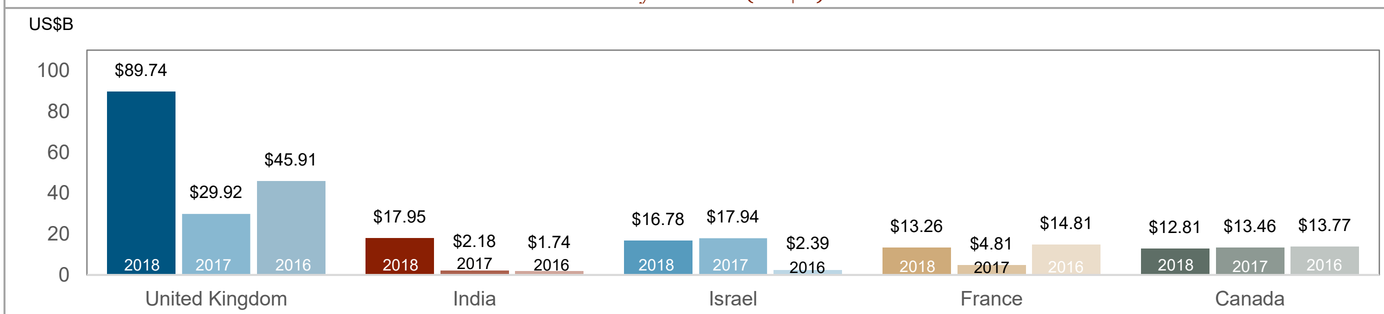
By Number of Deals



Note: In 2016, Germany was ranked among the top five countries of destination, with 73 deals.

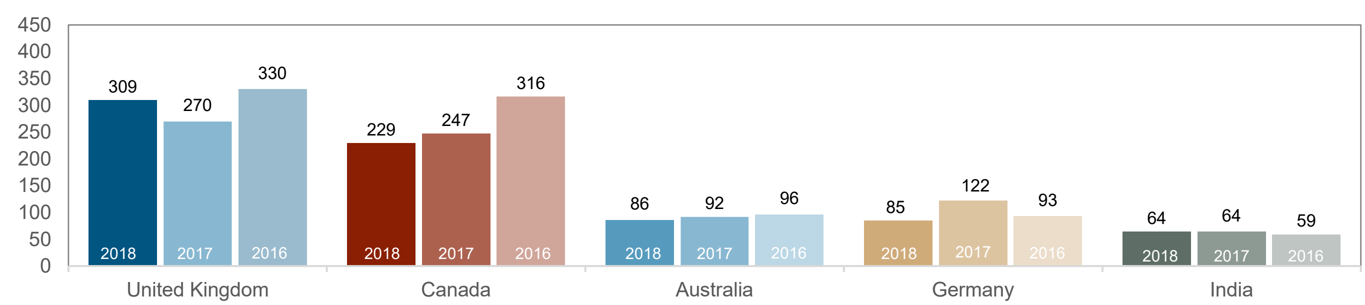
Outbound U.S. Crossborder Transactions

By Volume (US$B)



Note: In 2017, Switzerland and Germany were ranked among the top five countries of destination, with volumes of US$B 37.40 and US$B 15.60, respectively. In 2016, Germany and Sweden were ranked among the top five countries of destination, with a volume of US$B 56.02 and US$B 12.05, respectively.

By Number of Deals

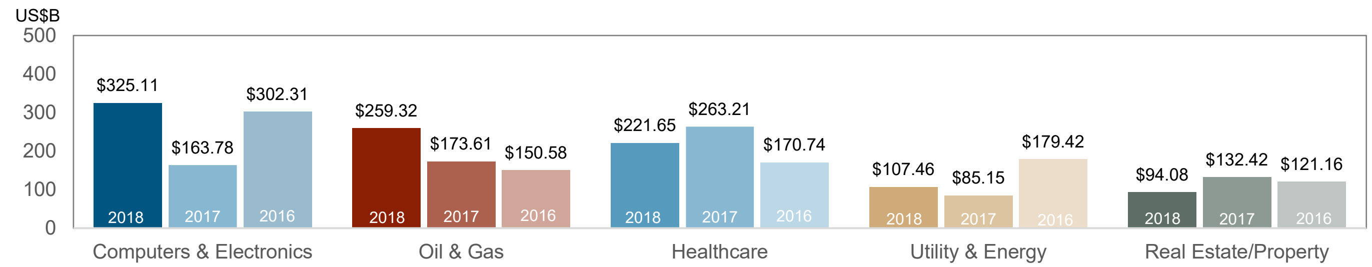


Note: In 2016, France was ranked among the top five countries of destination, with 75 deals.

M&A Activity (*Continued*)

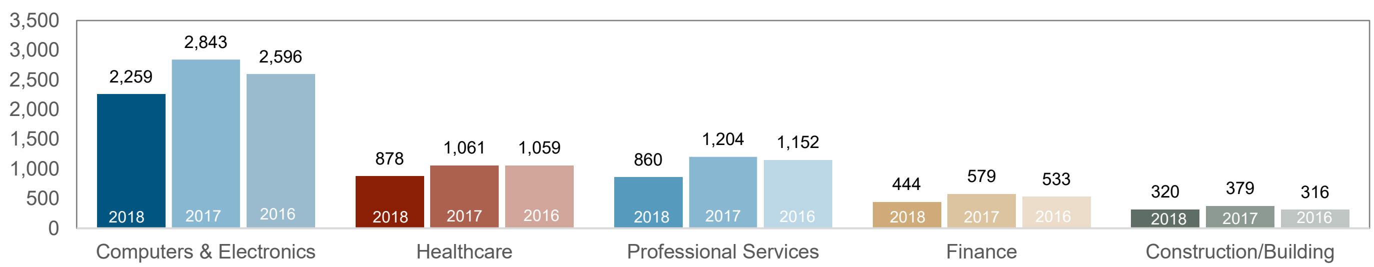
Figure 4 – Most Active U.S. Target Industries[3]

By Volume (US$B)



Note: In 2017, Telecommunications was ranked among the top five industries, with US$B 133.52. In 2016, Leisure & Recreation was ranked among the top five industries, with US$B 121.99.

By Number of Deals



Note: In 2017 and 2016, Oil & Gas was ranked among the top five industries, with 397 and 425 deals, respectively.

M&A Terms[4]

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

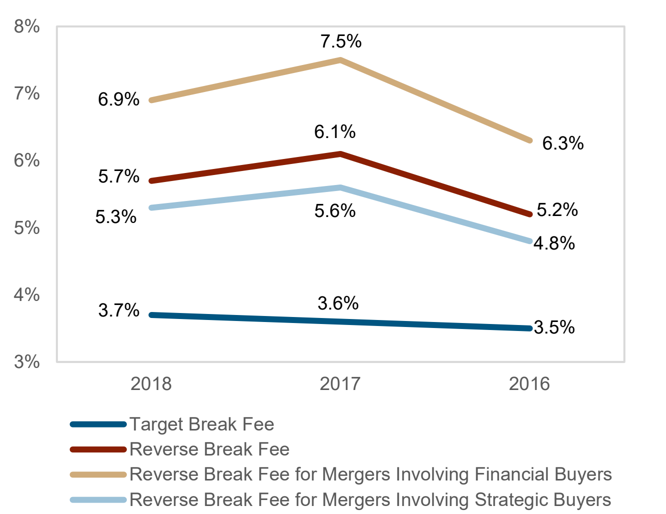


Figure 6 – Form of Consideration as % of U.S. Public Mergers[7]

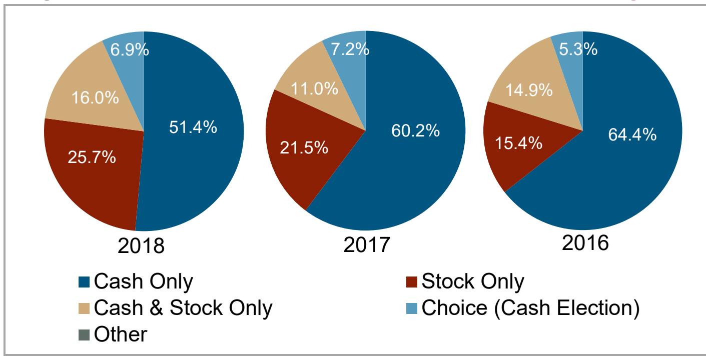
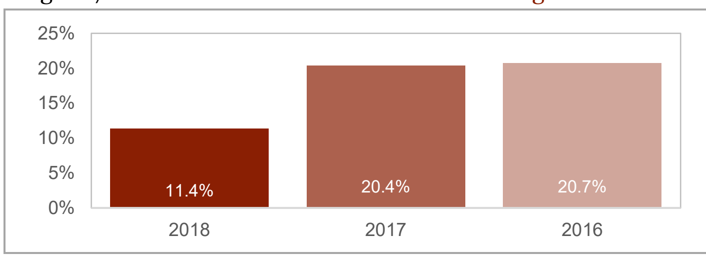


Figure 7 – Tender Offers as % of U.S. Public Mergers



3 Industry categories are determined and named by Dealogic.
4 Figures 5-10 were compiled using data from FactSet MergerMetrics. Figures 5, 6, 7, 8 and 10 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. Figure 9 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. Data obtained from FactSet MergerMetrics has not been reviewed for accuracy by Paul, Weiss.
5 Financial and strategic categories are determined by FactSet MergerMetrics.
6 Based on the highest target break fees and reverse break fees payable in a particular deal.
7 Due to rounding, percentages may not add up to 100%.

M&A Terms (*Continued*)

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

U.S. Public Merger Go-Shop Provisions			
	2018	2017	2016
% of Mergers with Go-Shops	8.6	6.7	11.7
% of Mergers Involving Financial Buyers with Go-Shops	23.1	10.3	45.7
% of Mergers Involving Strategic Buyers with Go-Shops	6.0	5.9	3.9
Avg. Go-Shop Window (in Days) for All Mergers with Go-Shops	38.7	37.1	35.4
Avg. Go-Shop Window (in Days) for Mergers Involving Financial Buyers with Go-Shops	36.8	46.7	33.9
Avg. Go-Shop Window (in Days) for Mergers Involving Strategic Buyers with Go-Shops	39.9	33.9	39.2

Figure 9 – Hostile/Unsolicited Offers as % of U.S. Public Mergers

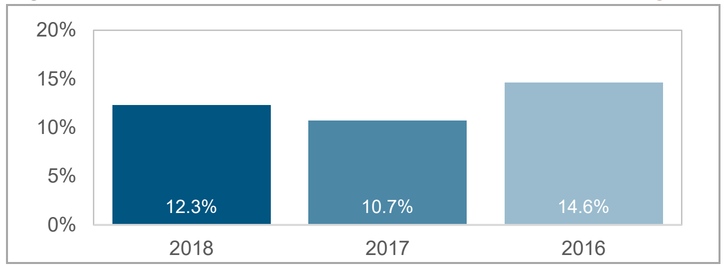
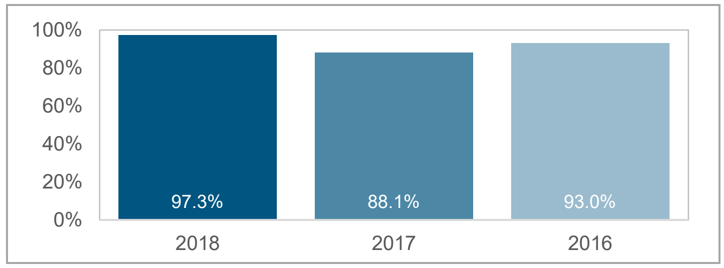


Figure 10 – % of Partial and All Stock Deals that Have a Fixed Exchange Ratio



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8 Financial and strategic categories are determined by FactSet MergerMetrics.

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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