

# Global dealmakers: Cross-border M&A outlook 2019

Now, for tomorrow



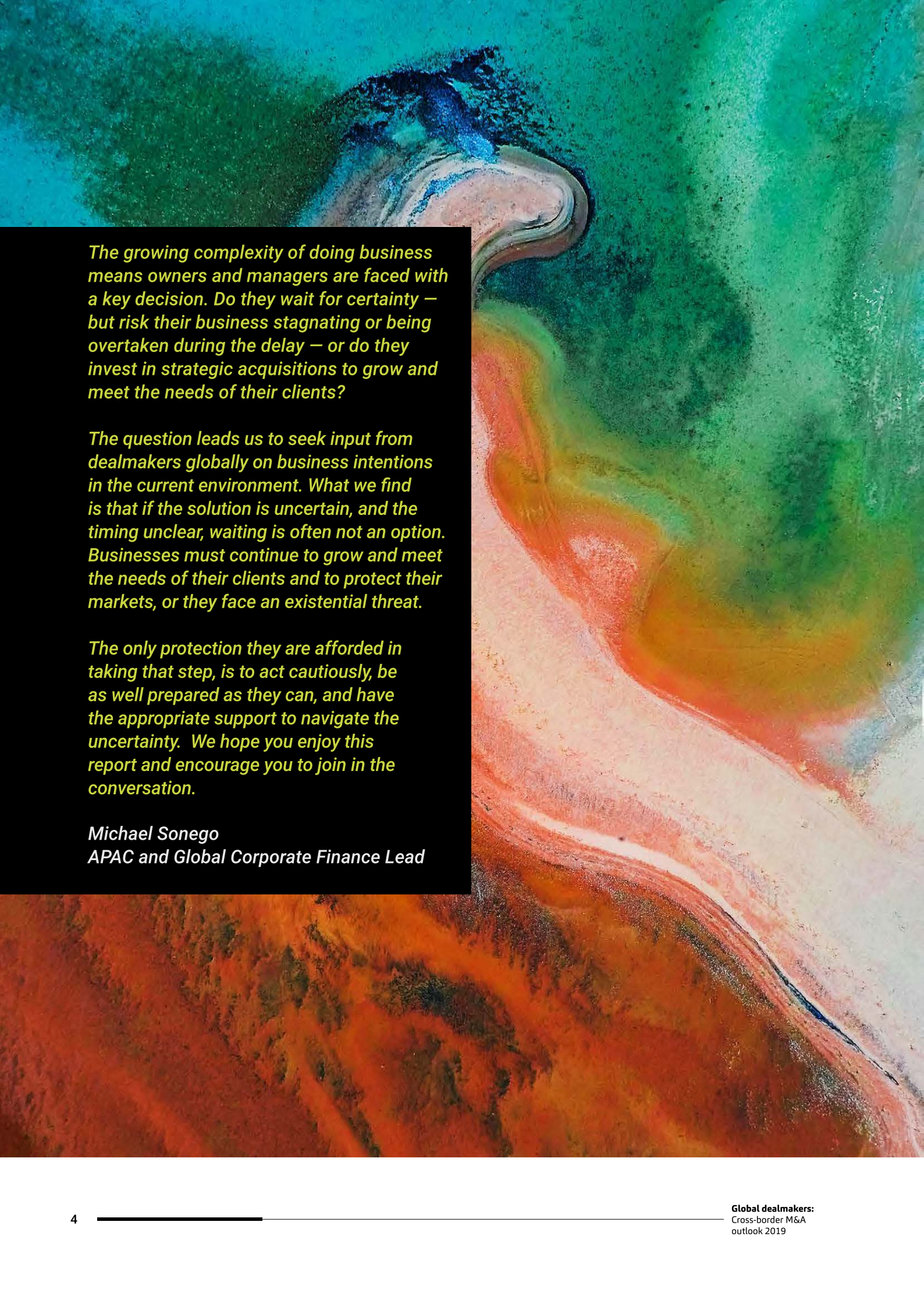
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*The growing complexity of doing business means owners and managers are faced with a key decision. Do they wait for certainty – but risk their business stagnating or being overtaken during the delay – or do they invest in strategic acquisitions to grow and meet the needs of their clients?*

*The question leads us to seek input from dealmakers globally on business intentions in the current environment. What we find is that if the solution is uncertain, and the timing unclear, waiting is often not an option. Businesses must continue to grow and meet the needs of their clients and to protect their markets, or they face an existential threat.*

*The only protection they are afforded in taking that step, is to act cautiously, be as well prepared as they can, and have the appropriate support to navigate the uncertainty. We hope you enjoy this report and encourage you to join in the conversation.*

**Michael Sonogo**  
**APAC and Global Corporate Finance Lead**

# Foreword

**Global dealmakers are braving uncertainty and geopolitical storms to get deals done. In H1 2019, global M&A value reached US\$1.86tn, increasing 21% over H2 2018 (US\$1.5tn). Although this was 8% less than H1 2018 (when US\$2tn in deals were announced), it was the second-highest half year on record.**

Likewise, while M&A volumes have slowed – declining 12% from H1 and H2 2019 to some of the lowest levels since 2015 – viewed within the historical context, dealmaking remains robust. And it could continue to be so into the year ahead.

To take the pulse of the current market and get a sense of executive and investor intentions for 2019 and the years ahead, we interviewed 150 dealmakers from across the globe. Their insights are revealing: 54% of those surveyed predict an uptick in M&A in the year ahead, and 71% say they will ramp up their cross-border investment as they explore foreign markets for growth opportunities.

These sentiments are remarkable for a number of reasons. Heightened geopolitical risks and rising protectionism mean M&A, particularly for buyers venturing beyond their home borders, has never been more challenging. Add to that shaky economics in key markets and whispers of a recession and it would seem the risks outweigh the rewards of these corporate endeavours.

However, many respondents note that it is because of these risks and challenges that they are pursuing an M&A agenda. Indeed, 35% of respondents say cross-border M&A is a risk worth taking, and many more are completing deals in response to tariffs and trade barriers created by various geopolitical spats across the globe. Action now, better prepares them for tomorrow's challenges.

Equally, respondents also say the need of reaching new customers, acquiring new technology and accessing various market opportunities cannot simply be stopped given complexities in the current market – rather, they must adapt and prepare for these challenges today.

This will likely be an ongoing theme through the rest of 2019 and the years ahead: that dealmakers will be increasingly cautious of which deals to pursue but will pursue them nonetheless. Those that do must be even more vigilant than in the past and have a comprehensive view of the challenges ahead and which opportunities – be it hot industries or markets rife with growth and other positive fundamentals – are risks worth taking.

The survey responses in this report help shed light on these issues, providing a roadmap and practical insights for dealmakers to consider into 2020. We hope you find this an enjoyable read and invite you to join the conversation by reaching out to one of our many Partners globally.

# Key findings

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**54%**

of global dealmakers expect M&A activity to increase in the year ahead



**71%**

will increase their cross-border M&A spend in the year ahead, compared to 61% who have similar intentions for domestic dealmaking



**34%**

believe cross-border M&A is a risk worth taking despite the current geopolitically charged climate and various macro challenges

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The US-China trade war and rising tariffs is the greatest challenge regarding dealmakers' cross-border M&A strategies



**77%**

say responding to tariffs and trade barriers will be the top driver of future deals



Reaching new customers (75%) and acquiring new tech or IP (73%) will also drive global M&A

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**49%**

expect to see increasing competition for assets in the year ahead



Competition will be led by private equity and other funds (41%) in addition to corporate buyers consolidating within their main industries (37%)



The mid-market will see the most dealmaking, according to

**67%**

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Southeast Asia (42%) and North America (40%) will be top regional markets for global M&A



The United States is the top market where dealmakers will invest in within the next 1-2 years



TMT (77%) and Consumer (61%) are top sectors of dealmaker interest

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Dealmakers are most concerned about regulatory hurdles (81%) and post-merger integration issues (77%) when doing cross-border deals



Conducting due diligence (68%) is another challenge and dealmakers say legal, tax and environmental investigations often require more time or resources



**55%**

say they have had a cross-border deal collapse

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# Introduction: Global M&A in 2019 and beyond

**Even amid heightened geopolitical risks and rising protectionism globally, cross-border M&A is set to remain a crucial mainstay of corporates' strategies for growth and development. These deals, however, may come under greater scrutiny as dealmakers adapt to the headwinds shaping the current market.**

The current environment of political and economic uncertainty – led by the US-China trade dispute, Brexit, and slowing global growth – seems to be having limited impact on corporate and private buyer desires to get deals done. Overall, just more than half of all global dealmakers (54%) expect M&A activity to increase in the year ahead, while a further third (35%) anticipate no change from current levels (Figure 1).

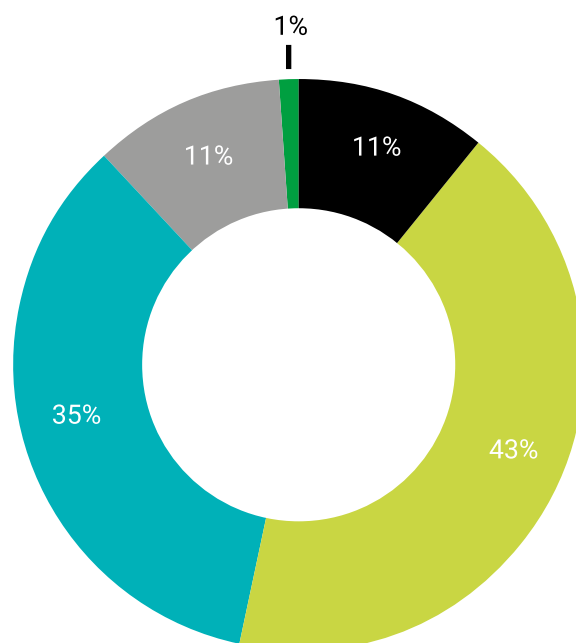
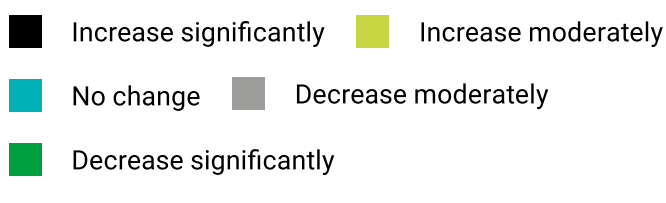
While conscious that they will be pursuing M&A against a backdrop of increasing risk, many executives are convinced it would be too defensive to abandon dealmaking altogether.

“It would be unwise to refrain from M&A activities entirely, even with the growing uncertainty,” says one respondent. “We just need to be careful to acknowledge the major issues in each region. This will help us target companies or regions where we foresee promising projected growth patterns.”

This determination, shared by respondents predicting increased M&A activity, suggests dealmaking in 2019 will remain healthy. It may be difficult to match 2018, the highest year on record for deal volumes and the second highest for deal values, but M&A has so far proved robust in the first half of 2019, and domestic deal values actually hit an all-time high.

Cross-border M&A also proved resilient in H1 2019, with 3,495 deals valued at US\$729.6bn, although lower compared to 3,952 deals worth US\$945.0bn during H1 2018 (Figure 2). In fact, cross-border M&A has proved remarkably stable in recent years, consistently accounting for around 40% to 50% of deal values since 2013 and 30% to 40% of deal volumes.

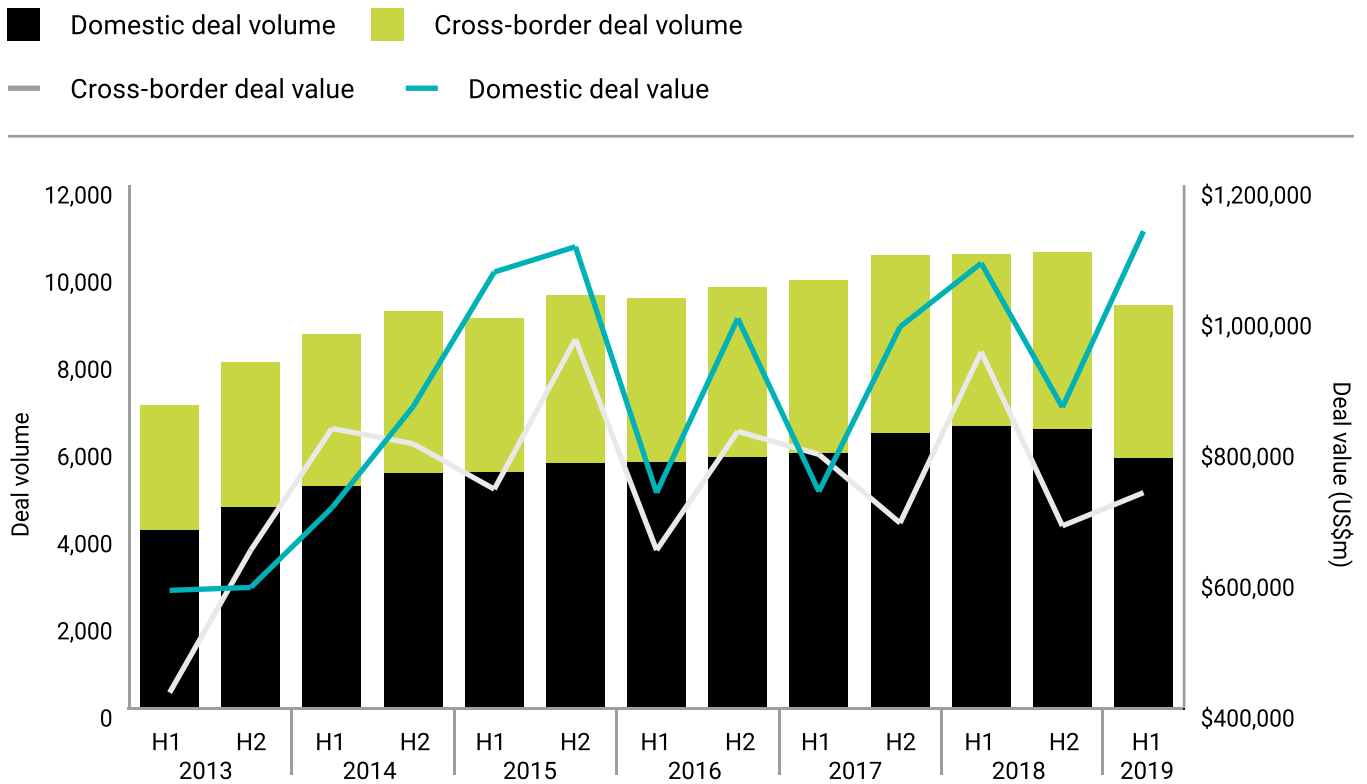
**Figure 1: What do you think will happen to the level of M&A activity globally in the next 12 months?**



*It would be unwise to refrain from M&A activities entirely, even with the growing uncertainty. We just need to be careful to acknowledge the major issues in each region. This will help us target companies or regions where we foresee promising projected growth patterns.*

*Survey respondent*

**Figure 2: Global M&A (Domestic and cross-border dealmaking)**



## Cross-border M&A: Worth the risk?

The reality of the global marketplace, particularly for the largest corporates, is that the search for growth requires companies to seek out emerging opportunities in new geographies, either for their core products and services or in adjacencies. The dynamic of faster-growing economies, particularly in developing countries, is a particular lure, with cross-border M&A potentially unlocking access to vast new customer bases.

Indeed, it is difficult to overstate the importance of cross-border M&A, as corporations identify new markets and segments, or acquire innovative new technologies or operational capacity that can drive competitive advantage. The pursuit of cross-border deals may feel uncomfortable, particularly during periods of market volatility, but the pay-off often proves worthwhile. In our research, 34% say they believe the risks posed by cross-border dealmaking

are outweighed by the value of the opportunities that the right deals represent – even in the current challenging climate (Figure 3).

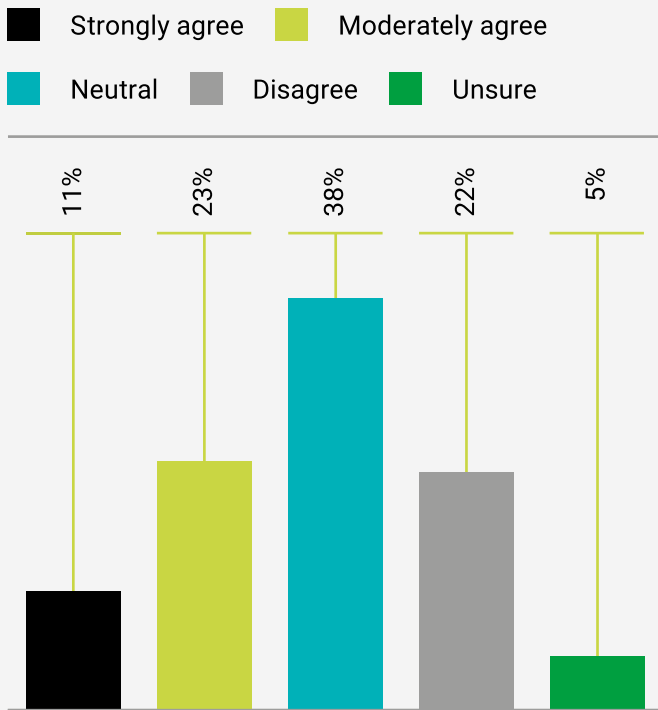
This is not to overstate confidence. Some businesses are more cautious, with 38% neutral on the issue of whether it is worth taking these risks, and 22% rejecting the case for cross-border M&A as too risky.

Nevertheless, the direction of M&A and deal flow is clear. Almost three out of four respondents (71%) say they plan to increase spending on cross-border M&A over the year ahead, a full 10% higher than in the domestic M&A marketplace (Figure 4). The findings may suggest many buyers are now prioritising potentially transformative big-ticket international M&A, rather than domestic dealmaking.

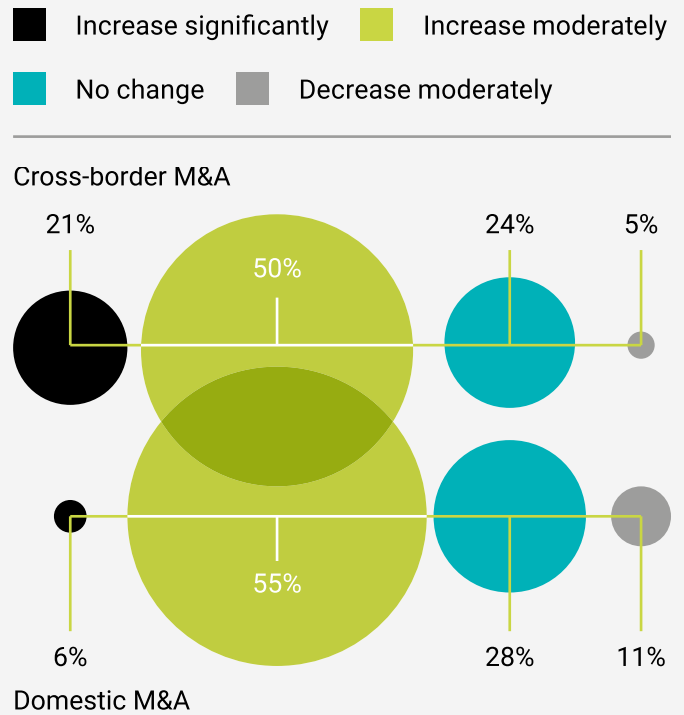
“We will be rebalancing our resources, by strategically reducing domestic deals for now and opting for cross-border targets instead,” says one respondent. “This will be better for enhancing our internal growth



**Figure 3:** Generally, do you feel cross-border deals are a risk worth taking given the current geopolitically charged climate and various macro challenges?



**Figure 4:** What will happen to the level of M&A and investment spend at your company/firm for the following deal types in the next 12 months?



*Even against the backdrop of increasing geopolitical tensions and economic headwinds, we do not expect cross-border M&A activity to decline in the foreseeable future – and actually, we’ve seen a surge in appetite for these deals, mostly from private equity and industrial holding-owned companies that were previously focused on domestic markets. Given these ongoing developments, successful dealmaking in the current market is fundamentally about cautiously pinpointing country risks.*

**Olivier Willems**  
**EMEA Corporate Finance Lead**

prospects; we have noticed in the past few years that emerging markets can provide better deal valuations and talent to promote intended growth.”

Another respondent agrees. “Right now, we feel it would be apt to concentrate on other regions and decrease the level of activity on the domestic front,” they say. “Developing economies have shown good potential, catching up to the sophistication maintained during the deal and offering terms that add value.”

### M&A intentions: Homefront remains priority

Optimism for cross-border deals does not mean dealmakers are forsaking domicile markets. Indeed, significant numbers of respondents are still looking for M&A opportunities in their home market: 78% anticipate looking for domestic M&A opportunities over the next 12 months, almost double the percentages for those considering any other

international market as their target destination (Figure 5).

This is not to suggest an end to the trend towards globalization. Domestic deals have traditionally accounted for the largest chunk of overall M&A. Large numbers of respondents also still intend to invest in key growth markets, led by Southeast Asia (42%) and North America (40%) as favored M&A markets – however, caution may be the prevailing theme during the current period of volatility and the uncertain outlook.

The high ranking of Southeast Asia and North America reflects the options now facing multi-national businesses and private buyers pursuing new growth opportunities abroad. On the one hand, the developing economies of Asia, with their expanding middle-class populations and rapid rates of growth, offer exciting potential. Meanwhile, North America – notably the biggest economy in the world – has posted strong growth over the past two years and is stable and familiar.

“Promising markets in North America have emerged, with better infrastructure and trading policies for foreign companies,” remarks one respondent.

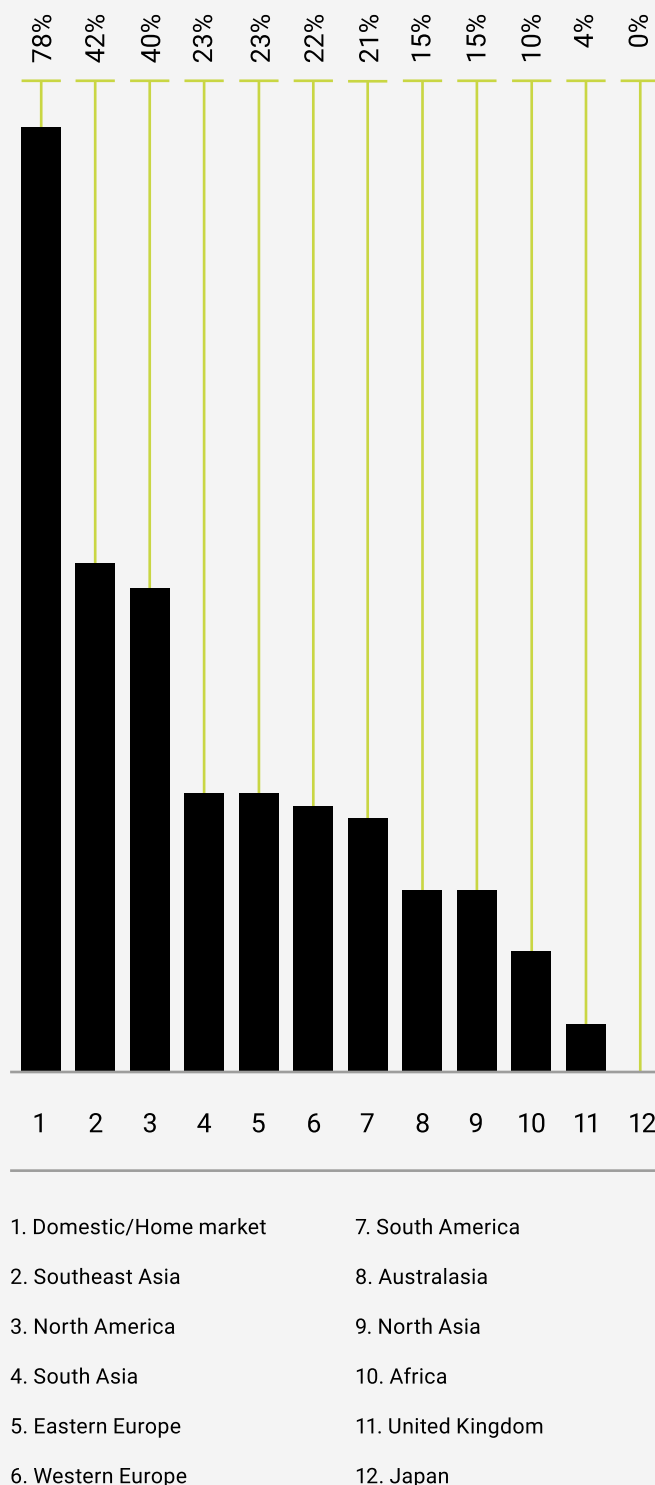
## Near-term challenges

Nevertheless, international M&A undoubtedly represents greater risk, particularly in the current global political and economic environment. This explains dealmakers’ relative caution about certain markets.

The ongoing trade dispute between the US and China has unnerved many dealmakers, with 59% saying this issue was one of the top two risks creating the most concern for their cross-border strategies (Figure 6). Other issues are a concern too: 43% cite the risks posed by climate change, while the ongoing Brexit negotiations are an issue for 32%.

On the US-China trade dispute, many companies point to the difficulty of planning deals with any certainty given the unpredictable turns that the row has taken. Brexit poses exactly the same problem. “We are not able to make such sound judgments about the target’s potential as we are used to,” says

**FIGURE 5: Where will your company/firm look for M&A and other investment opportunities in the next 1-2 years?**

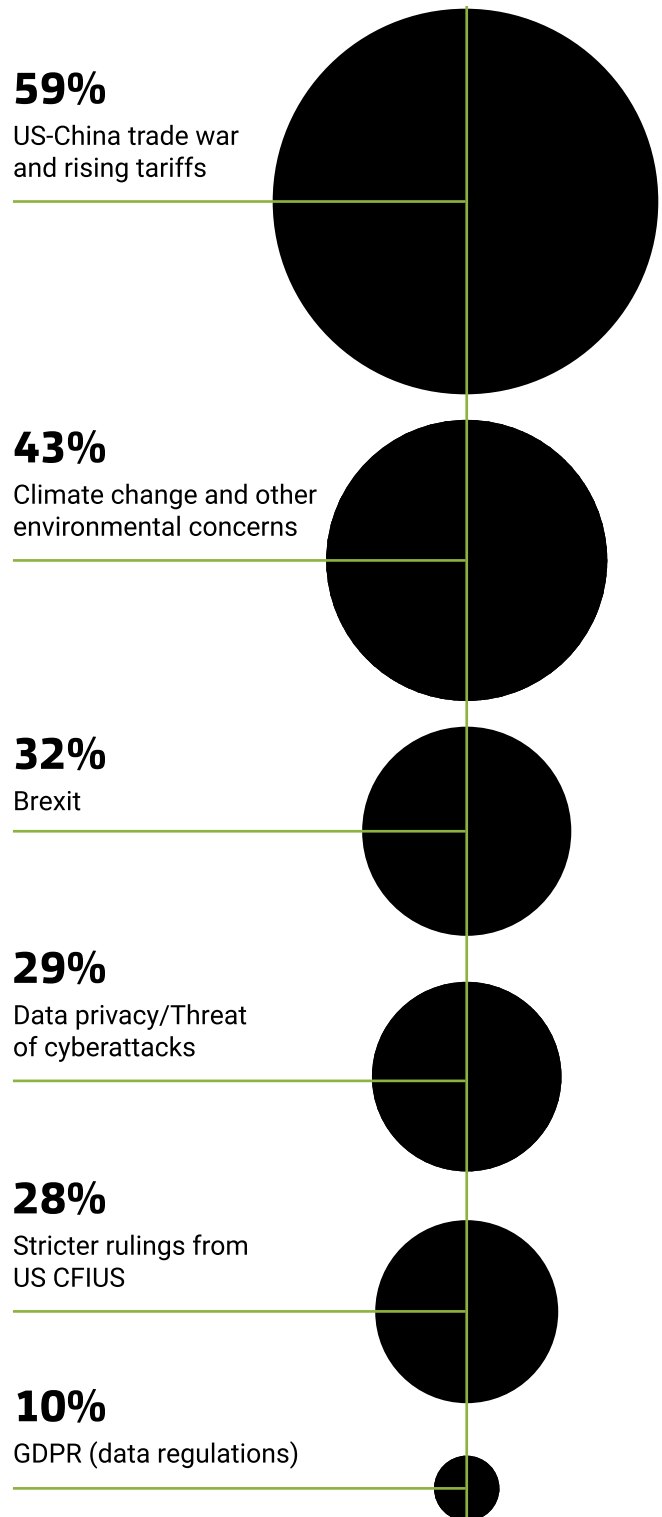


one respondent. "The trade war effects have been extensive all around, with companies and economies gearing up for the worst."

It is difficult to see these risks receding in the near future and more dealmakers are likely to postpone M&A, particularly in the run-up to key events, such as the period immediately before Brexit and even the run-up to the 2020 US presidential election. Equally, however, these challenges may prove to be a spur to M&A, prompting businesses to rethink their portfolios and respond to change by pursuing new deals (discussed in the next section: Deal drivers).

The key for dealmakers will be preparedness and agility: building the clearest possible picture of market developments and likely changes while being ready to move quickly to secure opportunities as they emerge.

**FIGURE 6:** Which of the following challenges/risks is of greatest concern with regards to your cross-border M&A strategy and intentions?



# Deal drivers

**The trade dispute between the US and China continues to have far-reaching effects throughout the global economy, particularly in the M&A marketplace. Respondents also expect increased competition for the best deals, bolstered by increasing private equity (PE) activity and corporate divestments that bring new assets to market.**

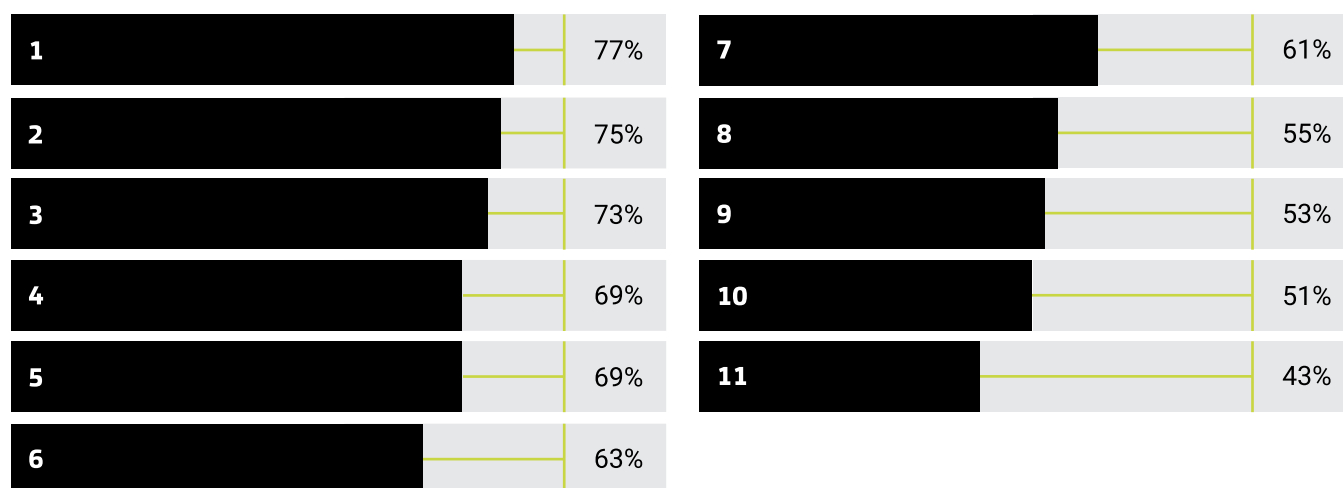
Respondents say the US-China trade dispute will be the main driver of their future acquisitions, more than many other factors shaping strategies today (Figure 7). “The trade war has been going on for more than a year now and nothing close to a solution has been reached,” says one respondent. “The complexities are increasing as China is taking steps to respond with its own set of policies.”

This might seem counterintuitive given the adverse effects of the dispute on a wide constituency of businesses and investors, given its depressive effects on confidence in the US and Asia Pacific, and its impact on Europe’s exporters. However, the dispute has left businesses that depend on Chinese manufacturers scrambling for new strategies to cope with increased tariff costs and reconsidering their supply chains. Demand for businesses and assets in other parts of the world is therefore high.

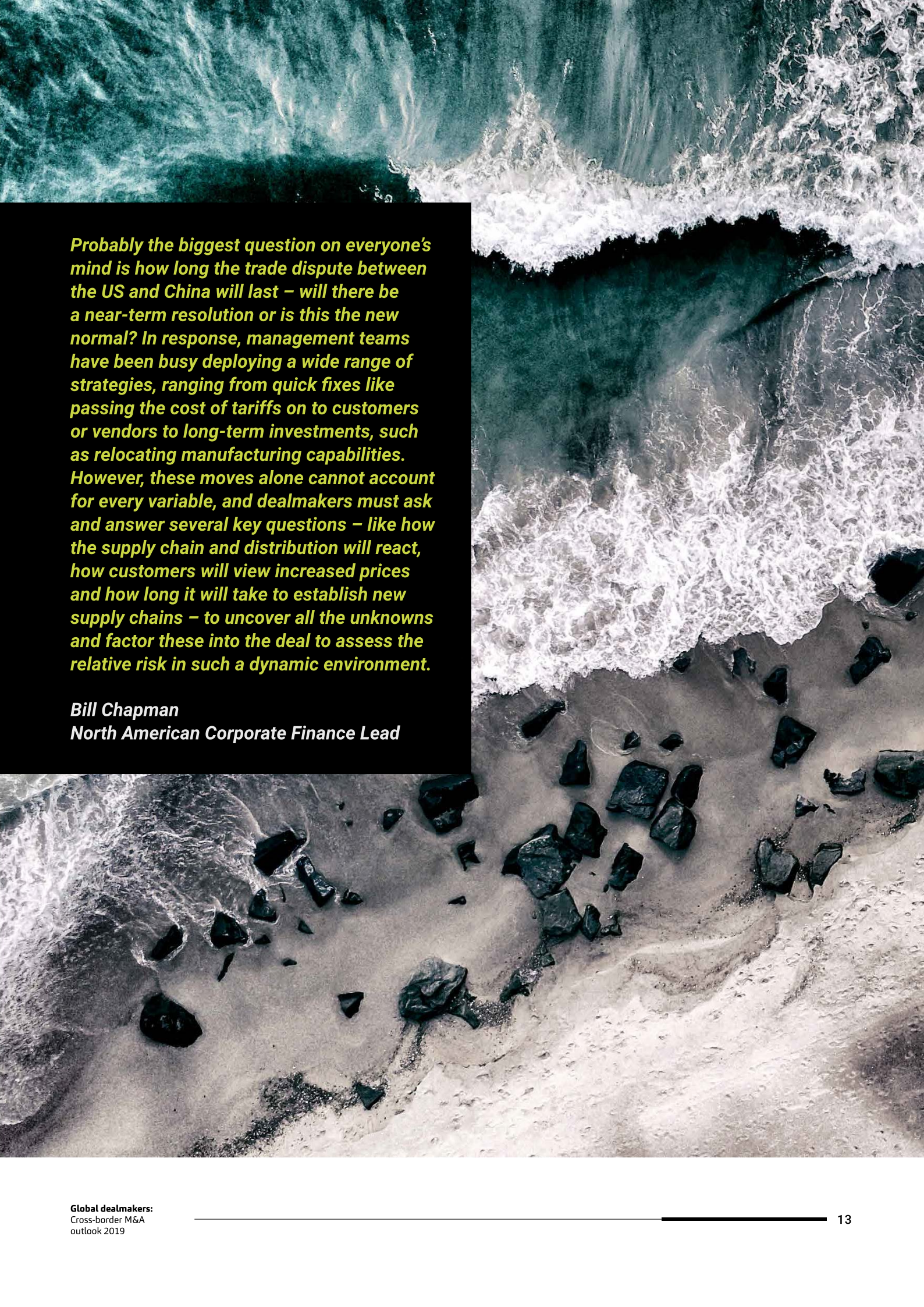
Meanwhile, many businesses continue to focus on M&A as an integral element of their growth plans. Some 75% pick out the need to reach new customers as a deal driver, with the growing middle classes of developing markets offering particularly attractive opportunities.

Almost as many (73%) cite the need to acquire new technology and intellectual property. As digital disruption permeates almost every sector of the economy, many businesses are buying digital capability in order to meet the threat of new entrants and renew their customer propositions. Similarly, 69% of respondents say they are engaging in M&A to respond to changing customer behaviors, where digital is also likely to be a factor, particularly amongst younger customers who expect to be able to do business any time and from anywhere.

**FIGURE 7:** What do you anticipate will be the main driver of future acquisitions? (Please select all that apply)



- 1. Response to tariffs and trade barriers    2. Reaching new customers    3. Acquiring new technology of IP
- 4. Increasing market share and/or geographic expansion    5. Response to changing customer behavior
- 6. Market entry    7. Expanding distribution or supply chains    8. Lowering labor, materials or operational costs (economies of scale)
- 9. Access to skilled or niche talent    10. Transformational acquisition    11. Lack of growth prospects in home market

An aerial photograph of a beach with dark, jagged rocks scattered across the sand. The ocean is a deep teal color, and white foam from the waves is visible as they crash against the shore. The image is split vertically, with the left side showing the water and the right side showing the beach and rocks.

***Probably the biggest question on everyone's mind is how long the trade dispute between the US and China will last – will there be a near-term resolution or is this the new normal? In response, management teams have been busy deploying a wide range of strategies, ranging from quick fixes like passing the cost of tariffs on to customers or vendors to long-term investments, such as relocating manufacturing capabilities. However, these moves alone cannot account for every variable, and dealmakers must ask and answer several key questions – like how the supply chain and distribution will react, how customers will view increased prices and how long it will take to establish new supply chains – to uncover all the unknowns and factor these into the deal to assess the relative risk in such a dynamic environment.***

**Bill Chapman**  
**North American Corporate Finance Lead**

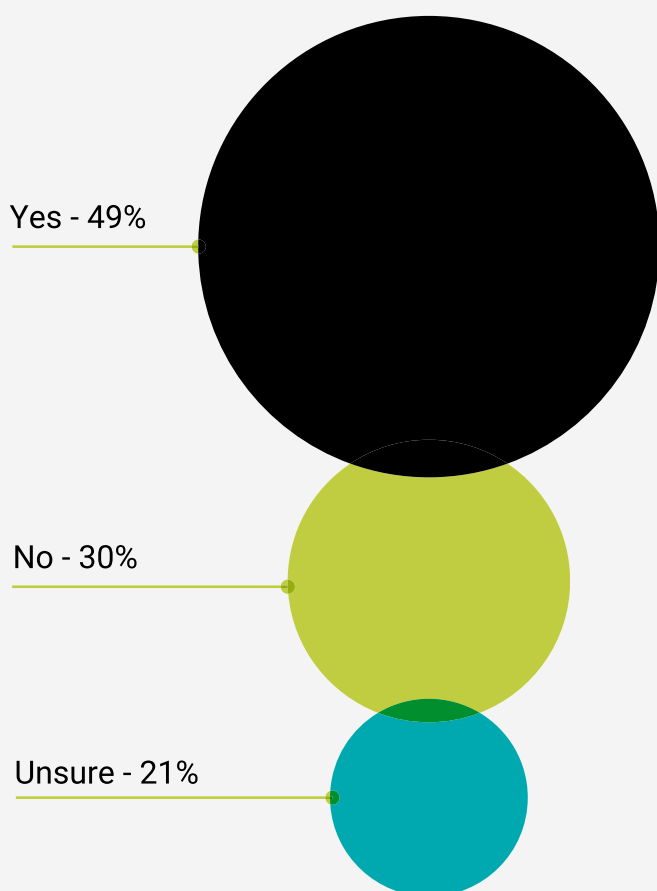
## A tougher market for dealmaking

Responding to these drivers successfully will not be easy in a marketplace where almost half (49%) of respondents expect to see greater competition for deals over the year ahead (Figure 8).

“There will definitely be an increase in competition over the next 12 months,” says one respondent. “As companies reassess their strategies and competitive advantage, they will surely look for new opportunities on the domestic and global stage.”

It isn't only corporates that are expected to compete for the best assets. While 37% of respondents expect increased competition from corporate buyers within their industry, even more (41%) anticipate PE firms, currently sitting on large amounts of dry powder, to step up their activities (Figure 9).

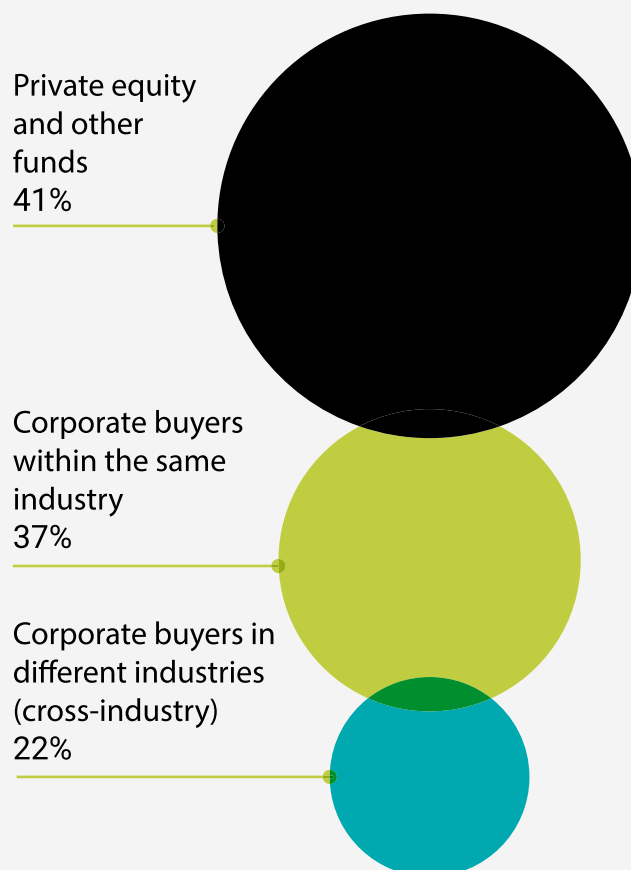
**FIGURE 8:** Do you expect to see increasing competition for assets in the next 12 months?



PE buyers often have an advantage, says one respondent. “Private equity has access to the funds and its timelines for quick decision-making are faster,” the respondent says. “They won't hesitate to raise their bid for a company that has performed well historically.”

Corporate buyers will not be completely relegated to the sidelines, as mature businesses and new entrants to industries from adjacent sectors search for growth. “The need for transformational acquisitions to improve customer satisfaction makes corporate buyers a major part of the competition,” says one respondent. Corporate buyers often have greater knowledge of the sector and synergies in a deal which positions them well to compete with private equity.

**FIGURE 9:** If you selected “Yes” to the previous question, from which of the following groups? (Select one)



## Sell-side drivers

On the supply side, meanwhile, there is good reason to expect further strength. Indeed, industry consolidation, portfolio repositioning and the need to raise capital are all providing impetus for sellers.

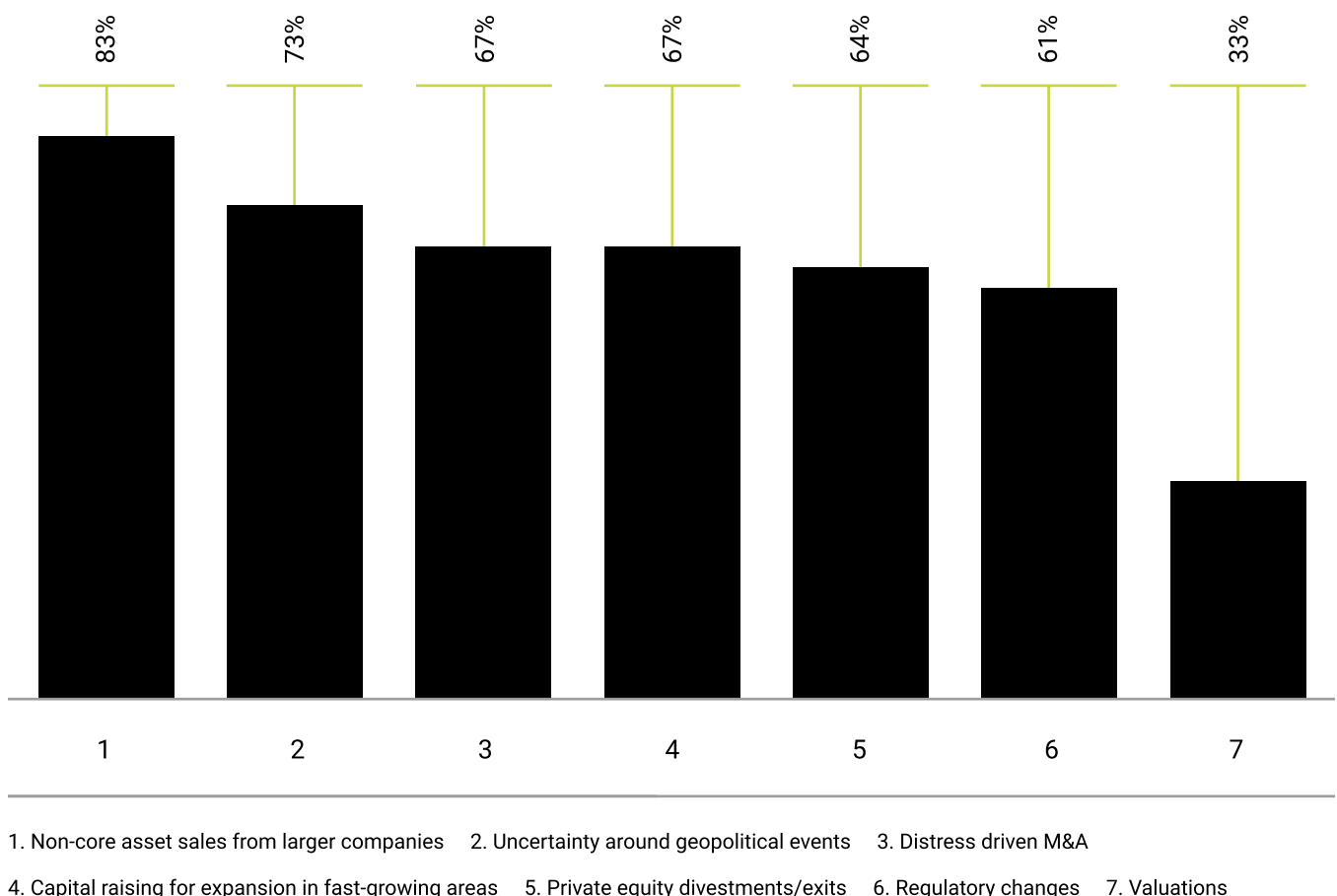
The desire amongst sellers to dispose of non-core assets is regarded as the single most important driver of activity over the next 12 months, according to 83% of respondents (Figure 10). In part, this reflects sellers' desire to focus on those activities they now regard as most strategically important given the changing shape of the marketplace – those that will help them ward off digital disruption, for example. "Larger companies are looking to upgrade and modify their current business models to suit the new regulatory environment and economic constraints," says one respondent.


The need to be lean and agile is undoubtedly a factor here too.

Similarly, the desire to sell because of uncertainty around geopolitical events (73%) and the need to raise capital for expansion in fast-growing markets (67%) reflect the ambitions of corporates to ensure they have the right portfolios for the opportunities and threats that now confront them.

By contrast, while asset prices do look stretched in some sectors and industries, only a third of respondents (33%) see valuations as drivers of their M&A activity in the short term. They may well be able to achieve good prices, but the strategic imperative to reshape their businesses in this fast-moving market outweighs tactical considerations.

**FIGURE 10:** Which of the following will be the greatest sell-side drivers of M&A activity over the next 12 months? (Select all that apply)





**Buyers perceive small-cap deals as too risky, given the fact that small firms often depend on a number of key people. The amount of effort and risk in small deals outmatches the return, whereas large deals often do not materialize either early-stage or last-minute because of legislative hurdles (such as antitrust issues).**

**Mid-market deals, generally yielding better risk-return ratios and avoiding scrutiny from above, may therefore seem most attractive. More intuitively, the mid-market segment constitutes the most attractive targets given their proven business models and agility.**

**Michael Sonego  
APAC and Global Corporate Finance Lead**



## The mid-market opportunity

The consolidation and rationalization story may also partly explain why so many respondents now expect to see more M&A activity in the mid-market than in either large or small caps. More than two-thirds (67%) pick out the mid-market as likely to be the busiest segment, reflecting their expectation that corporates will divest non-core businesses likely to be of a manageable size.

Fewer respondents, by contrast, expect to see megadeals dominate, with the uncertain environment mitigating against support for larger transactions. Nor do many respondents expect small-cap deals to dominate, perhaps suspecting that buyers will look for track record and at least some scale during this risky period.

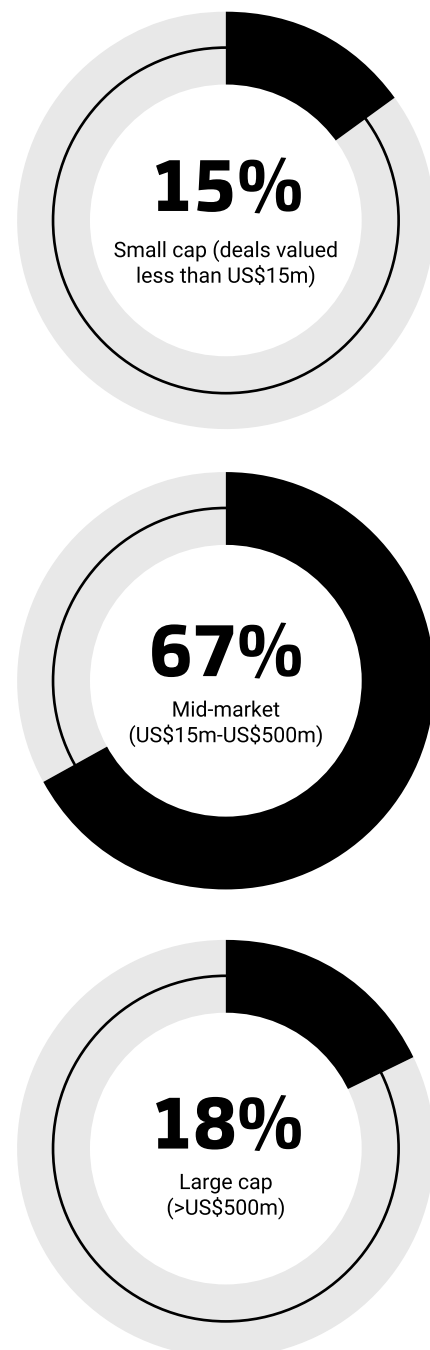
“Mid-market businesses offer the opportunity for gradual development,” argues one respondent. Another adds: “Mid-market targets are more flexible and easier to align with the objectives of the investor.”

Still, there are some question marks over the supply of good-quality mid-market transactions. While demand remains strong, there is some evidence that sellers are marketing less-prepared businesses with lower profitability, leading to an increase in uncompleted deals.

***Mid-market targets are more flexible and easier to align with the objectives of the investor.***

*Survey respondent*

**FIGURE 11:** Which deal segment will see the most M&A activity (by deal volume) over the next 12 months?



# Global opportunities: **Key markets**

## **Asia Pacific and North America stand out, as respondents expect M&A activity to accelerate given clear market advantages, promising growth rates and the availability of deals.**

Asia's developing economies clearly offer attractive opportunities for multi-national businesses now looking to step up their growth and to expand into new markets. Many dealmakers are enthused about both the economic prospects and the availability of deal opportunities in the region. As such, 73% expect M&A activity to increase there, including 28% who predict a significant uptick (Figure 12).

However, while Asia leads the survey, it would be a mistake to underestimate the desire of dealmakers for further exposure to North America, where economic growth over the past two years has consistently outstripped other Western markets.

As noted in figure 5, North America is seen as a leading destination (according to 40%) for dealmakers now plotting their M&A strategies over the next one to two years and the US actually ranks as the top specific country where dealmakers are setting their sights (Figure 13). Current levels of deal activity reflect these ambitions: the US\$1tn worth of deals recorded in the US during H1 2019, accounted for 55% of global deal value (and 34% of volumes) (Figure 14). Overall, North America's record as the number one region, by value, for target acquirers since 2013 looks likely to continue this year.

In Europe, by contrast, far fewer respondents believe M&A activity is set to increase over the next year – just 24%. That reflects conditions on the ground, with deal

data revealing that M&A in the region posted the worst performance of any region globally. Europe accounted for only 22% of global deal values during the first six months of 2019, though 40% of deal volumes. It is also significant that the UK does not make it into the top 10 list of destinations in figure 13 where respondents expect to invest over the next one to two years. Without the uncertainties of Brexit, the UK would surely be a key target market for many.

Elsewhere in the world, Latin America and the Middle East and Africa continue to account for minor shares of global M&A activity. Nevertheless, respondents expect these markets to become more attractive to dealmakers, in line with their anticipation of further activity to come in Asia, as acquirers scour the globe for emerging market opportunities.

## **North America: Onward and upward**

Respondents are attracted to North America for its reliable infrastructure, the availability of attractive target opportunities and its political stability and legal certainty (Figure 15). These qualities have sustained the region's consistent leading position in global M&A over an extended period and will continue to do so – North America was the only region of the world to post an increase, year-on-year, in deal values during the first half of the year.

***North America is experiencing an accelerated level of interest in inbound M&A activity. In the last 18 months we have seen interest from foreign buyers in China, Germany, Denmark, and the Netherlands, among others. This interest has been sector agnostic, with interest across all industries.***

***Bill Chapman  
North America Corporate Finance Lead***

Nevertheless, dealmakers do have some concerns. After an extended period of high levels of M&A activity, only just over a quarter of respondents (27%) believe that North America offers attractive valuations. There is also concern about the economic outlook: while 74% of respondents point to a positive outlook, this is well below the scores recorded by other regions.

Such fears inevitably reflect the ongoing trade dispute between the Trump administration and China. While President Trump's supportive fiscal policies have helped ensure a strong performance from the US economy over the past two years, there is now mounting anxiety about the likelihood of slower growth or even a downturn, as the dispute begins to bite and Chinese tariffs take their toll. The President's pleas for the US Federal Reserve to pursue more accommodative monetary policies no doubt reflect this, with slower global growth also likely to dampen the US economy.

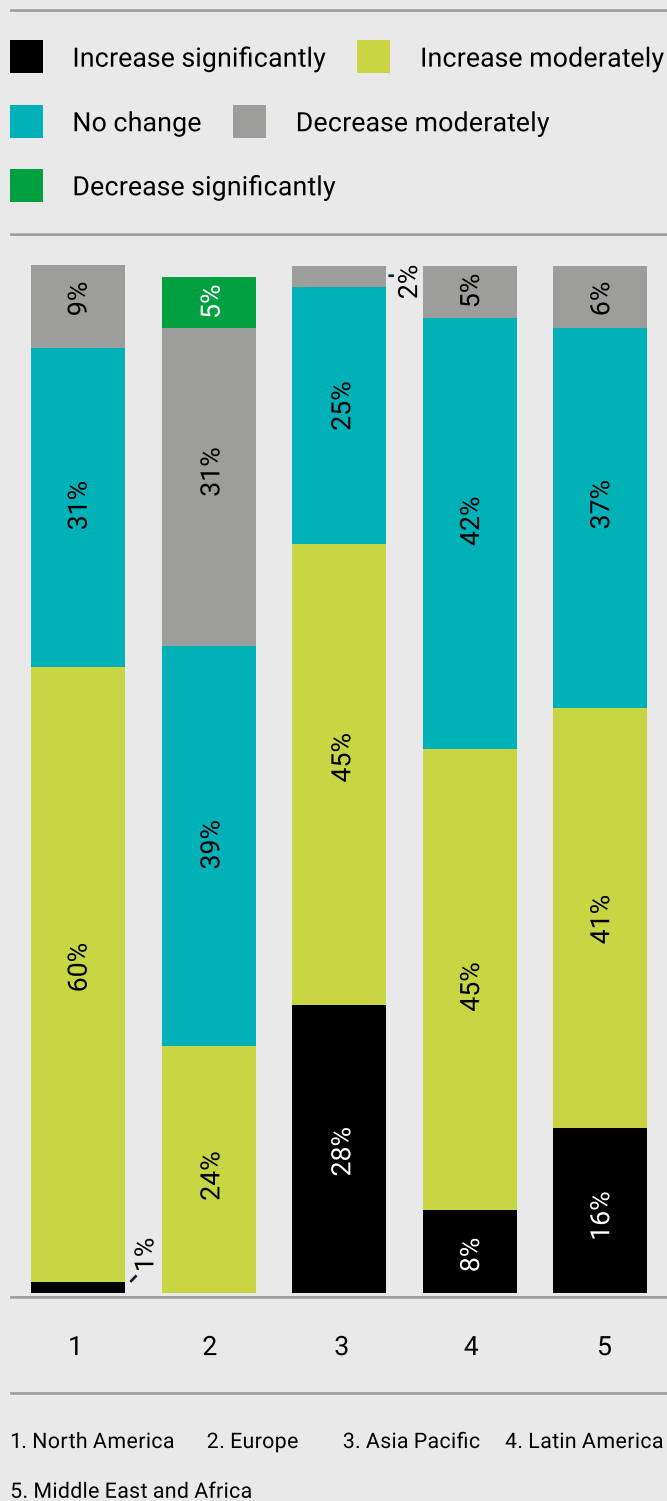
Still, there is reason to be optimistic about M&A activity. For now, US economic performance remains robust and even without further interest rate cuts, the availability of affordable finance is strong. Both strategic and financial buyers continue to deploy capital; private equity investors in particular have significant dry firepower and are also increasingly open-minded about deal structures – launching, for example, minority buyout funds.

### Asia Pacific: Trade war taking its toll?

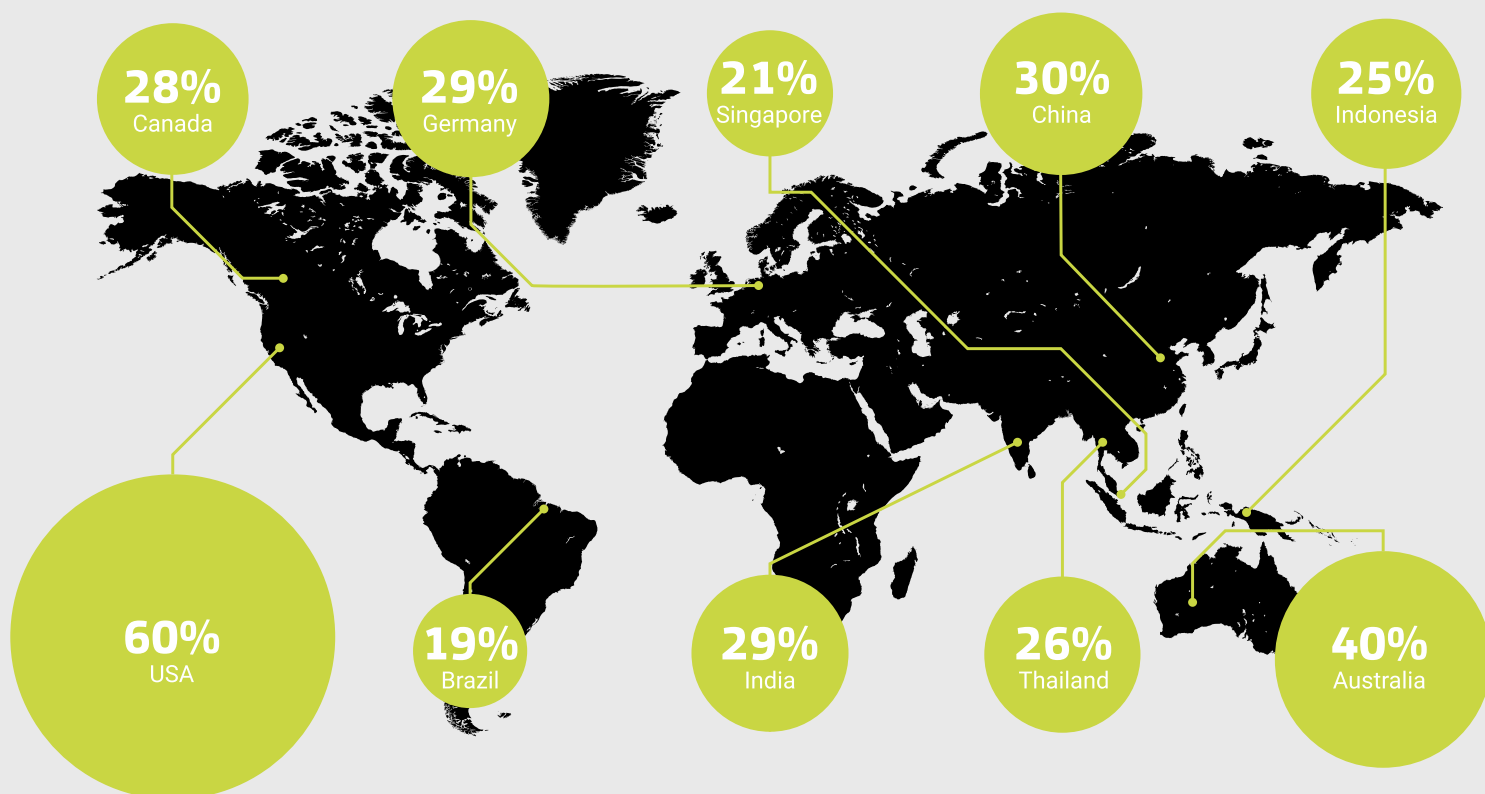
The decrease in Asia Pacific M&A during the first half of the year – down 30% in value and 18% in volume year-on-year – reflects the impact of the US-China trade dispute, to which many of the region's industries are directly exposed. Still, Asia Pacific continues to excite dealmakers, who point to its economic prospects, deal opportunities and attractive valuations. Dealmaking in the region is widely expected to continue increasing over the next 12 months, though some parts of Asia Pacific will be stronger than others.

Southeast Asia, for instance, ranked particularly high, with 42% of respondents in figure 5 saying they have the sub-region – be it the emerging markets such as Indonesia, Thailand, Vietnam and Malaysia or the advanced economy of Singapore – in their investment

**FIGURE 12:** What do you think will happen to the level of M&A activity in the following markets in the next 12 months?



**FIGURE 13:** In which specific countries will you invest in the next 1-2 years? (Top 10 countries)



**FIGURE 14:** Regional % of total global M&A

	% of global deal value in H1 2019	% of global deal volume in H1 2019
North America	55%	34%
Europe	22%	40%
APAC	15%	21%
Latin America	2%	3%
Middle East and Africa	6%	2%

**Global round-up (H1 2019 figures and 1H18 v 1H19 % changes)**

	H1 2019 Deal value	H1 2019 Deal volume	Deal value HY % change	Deal volume HY % change
Asia Pacific	US\$276bn	1,857	-30%	-18%
North America	US\$1,023bn	3,080	13%	-13%
Europe	US\$399bn	3,587	-38%	-11%
Middle East and Africa	US\$115bn	202	233%	-8%
Latin America	US\$38bn	285	-22%	-17%

**Asia Pacific is an attractive target destination as global buyers look for opportunities where they can participate in the higher than average growth rates and population expansion the region has to offer. The region is also awash with cash available for investment. While we continue to see significant interest in Asia Pacific targets across industries, the region's complexity, which accommodates some of the world's richest and poorest nations, shouldn't be underestimated and may be more complicated than dealmaking in markets like the US and Europe.**

**Michael Sonogo**  
**APAC and Global Corporate Finance Lead**

crosshairs. Indeed, Southeast Asia offers various economic and demographic advantages: growth within key economies has been promising in recent years and expansion of the middle class has led to a strong and growing consumer base. Likewise, the availability of deals and reasonable valuations are other market positives.

In South Asia, dominated by India, almost one in four (23%) of respondents expect to make an investment in the region in the near future. While M&A has slowed here in H1 2019, this is not necessarily directly linked to the US-China trade war. Businesses and foreign investors remained cautious earlier in 2019 ahead of general elections in India in May. However, dealmaking failed to regain lost momentum in Q2 2019 as a slowdown in GDP growth and domestic consumption weighed heavily on M&A decision-making.

In North Asia, notably China and Hong Kong, the trade war has depressed sentiment, and 28% of respondents actually said it is one of two (alongside the UK) of the most challenging regions to invest in today. The

Chinese government's promise to open new sectors to international investors is potentially exciting, but economic and political uncertainty are undermining confidence. The civil unrest seen in recent months in Hong Kong has also added to the sense of unease.

In Australasia, the M&A market remains robust, sustained by domestic M&A but also by growing international interest. Australia, in particular, ranked highly among respondents in figure 13, with 40% saying they plan to invest there in the next two years. This sentiment is understandable given the market's strong fundamentals, economic growth and political stability providing international capital a "safe haven" against the elements of the trade war and other uncertainties.

While outside the immediate sphere of the US-China trade war, no respondents plan on investing in Japan in the near future. Historically, this is relatively unsurprising, as Japan has predominantly been a domestic market for M&A rather than a destination for foreign capital. That is not to say that Japan is without deal opportunities, and recently foreign PE firms have been assessing assets as Japanese conglomerates restructure and offload non-core businesses, creating ample buying opportunities.

## Europe: Brexit woes

The very significant decline in M&A activity recorded in Europe during the first half of the year – with deal values and volumes down 38% and 11% respectively – underline the difficulties facing the region as it struggles with Brexit, the slowdown in the Eurozone, trade dispute contagion and ongoing political uncertainty.

The headwinds for Europe are intimidating. More than three years after the UK voted to leave the European Union, the terms on which it will do so remain mired in uncertainty. Brexit has paralyzed the UK's political agenda, though its depressive effect on the Sterling has created opportunities for overseas acquirers; across the channel, meanwhile, the uncertainty has hit activity across the continent.

Europe is also struggling with an economic deterioration, prompting the European Central Bank to consider further interventions to support the Eurozone,

**Increasing uncertainty concerning Brexit, Italy's worsening financial state, a decrease of the GDP growth in the European region and other recent events, have started casting a shadow over European inbound M&A activity. EMEA-based buyers in turn may find interesting opportunities in North America and Asia Pacific, due to the US economic growth track record and its robustness against external factors and Asia's emerging market growth. There is real merit for global diversification in times of geopolitical uncertainty.**

**Olivier Willems**  
**EMEA Corporate Finance Lead**

including more rounds of quantitative easing. The possibility that the region could be dragged into the global trade dispute is also causing consternation, with Germany's crucial automotive industry seen as particularly vulnerable. Protectionism and the desire to protect key industries, such as automotive, is also likely to drive and justify acquisitions by Europeans.

Nevertheless, Europe remains on the radar of global dealmakers who point to its still relatively stable political and legal systems and its strong infrastructure. Almost three-quarters (73% of respondents to our survey believe valuations are now attractive in the region.

Moreover, while M&A activity is certainly down, there are also positive notes in the data. In particular, Europe still accounts for 40% of deal activity by volume according to Mergermarket. Megadeals may have been few and far between, but M&A activity is still impressive: the region recorded 3,587 deals in the first half of 2019, more than any other region.

The strength of the private equity sector has been one important factor. Sitting on dry powder of more than US\$2 trillion, an all-time high, investors continue to look for opportunities. The decline in PE-led M&A during the first half, at just 15% in Europe, was markedly lower than 33% decline from the market overall.

## The Middle East and Africa: Rising interest

Dealmakers are paying more attention to the Middle East and Africa than ever before, citing its strong economic outlook, its deal opportunities and affordable valuations, as well as the relative lack of competition for the best assets. Indeed, the region's first-half performance was notable, with deal values up 233%, albeit from a low base (total deal values reached US\$115bn in the first half, almost 10 times) less than North America), and volumes declining only 8%.

There are, however, risks ahead. In particular, tensions in the Gulf, particularly between Iran, Saudi Arabia and the rest of the world, threaten political instability.

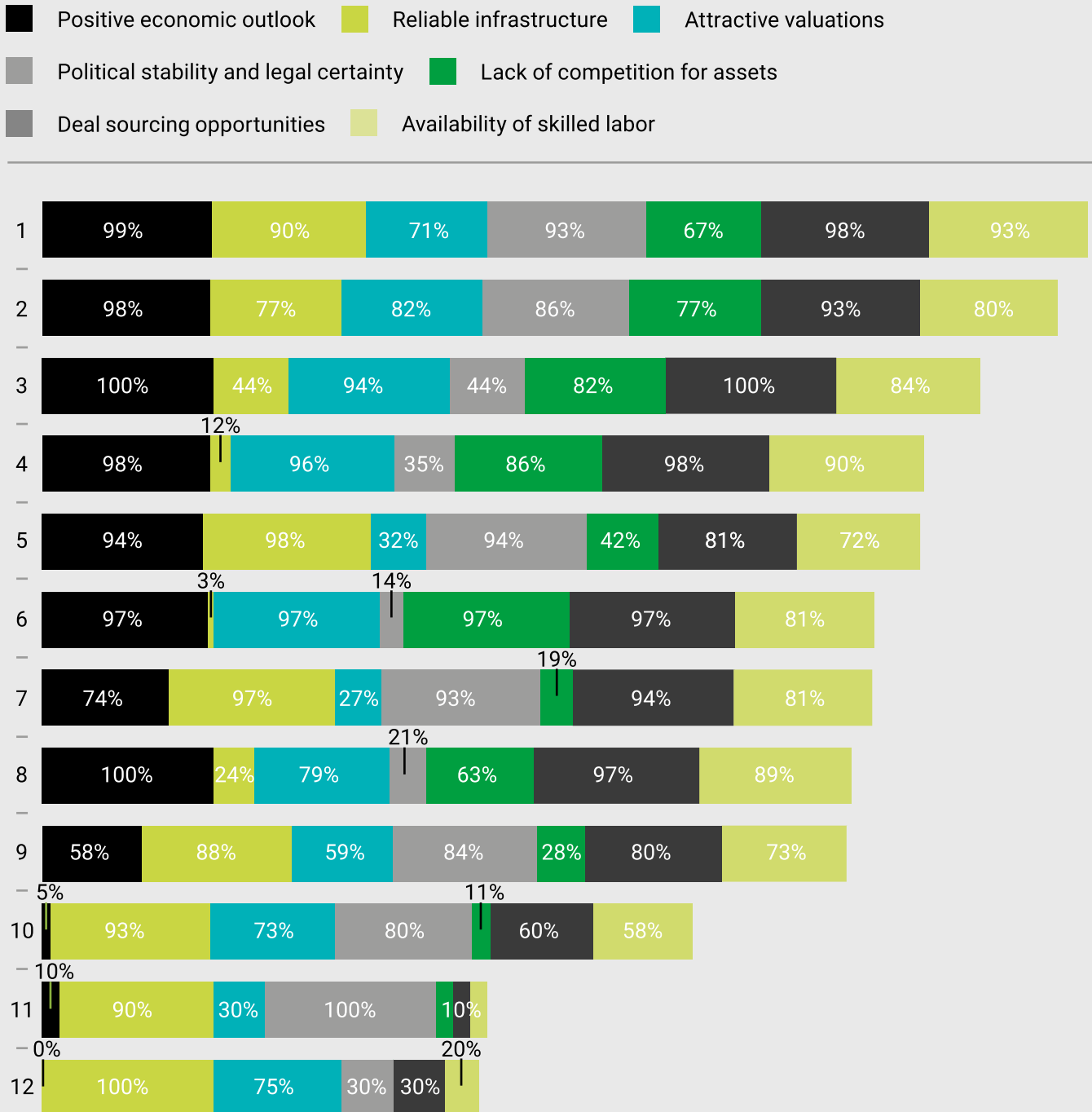
Still, there are reasons for further optimism too. Africa's natural resources, including the oil and gas and mining sectors, are an attractive target for international buyers. Israel has become a global center for technology businesses, attracting growing M&A.

## Latin America: Down but not out

M&A activity in Latin America remains relatively small-scale, with deal volumes reaching only US\$38bn during the first half of the year, a 22% decline on the same period of 2018 (deal volumes also fell, by 17%). Dealmakers have not lost interest in the region: more than half (53%) of respondents expect activity to increase over the next 12 months. The region's long-term economic opportunities, deal-sourcing possibilities and attractive valuations all attract admiration.

Nevertheless, political upheaval is a concern, with new governments in Brazil and Mexico, the region's two crucial markets, still finding their feet. Equally, an increase in trade tariffs globally would be a headache for many businesses in the region.

**FIGURE 15:** Regarding the geographies where you intend to invest in within the next 1-2 years, which of the following makes them attractive investment destinations? (Select all that apply for each relevant geography)



1. Southeast Asia 2. Eastern Europe 3. South America 4. South Asia 5. Australasia 6. Africa 7. North America 8. North Asia  
 9. Domestic/Home market 10. Western Europe 11. Japan 12. United Kingdom

# Sectors in the spotlight

**Technology, media and telecommunications (TMT) and consumer will be the focus of global M&A as dealmakers look to bolster their digital advantages and tap into new customer groups in developed and emerging markets.**

At a sectoral level, more than three-quarters of respondents pick out technology, media and telecoms (TMT) as likely to be amongst the three most attractive sectors for M&A activity (Figure 16). Only consumer (61%) comes anywhere near matching this rating.

## TMT: The rise and rise of digital

The attractions of TMT are well-documented – though it is not always straightforward to identify the best opportunities. Online competitors continue to disrupt almost every imaginable industry, prompting incumbents and those ambitious for growth to compete aggressively for acquisitions to enable their own digital transformation. From data analytics to artificial intelligence, emerging technologies represent a crucial source of competitive differentiation; acquirers are desperate to secure

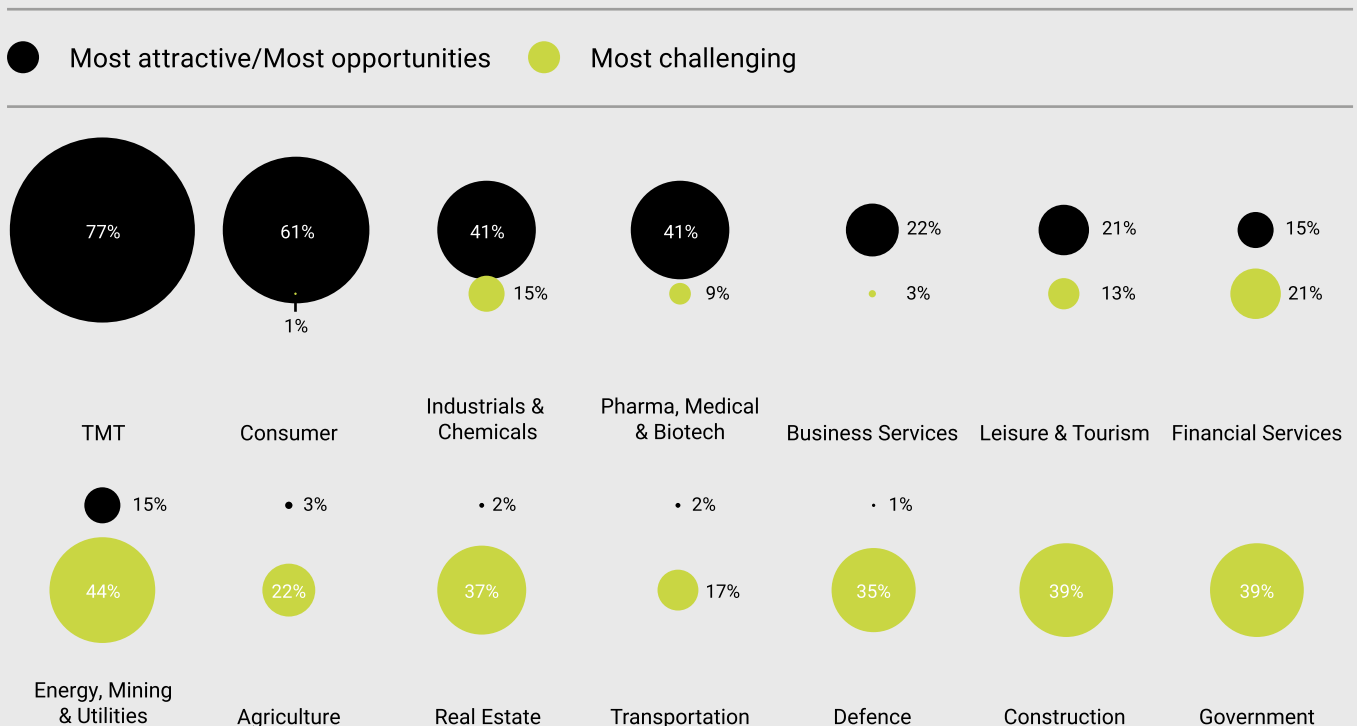
access to the capabilities and skills necessary to exploit such opportunities.

The sheer scale of disruption means no industry is immune to these imperatives, driving M&A in every sector. And it isn't only strategic buyers competing for such assets; private equity investors recognize the enormous growth potential of the best tech companies and are paying record sums for leading assets.

Regulation is looming on to the horizon, from competition concerns to question marks over privacy and ethics. For now, however, no respondent sees TMT as one of the top three sectors throwing up challenges to dealmakers.

Indeed, deal activity in the sector remains robust. Having narrowly achieved record highs in terms of both deal values and deal volumes in 2018 – at US\$724.7bn and 3,839 deals respectively – the TMT sector saw

**FIGURE 16: Which of the following sectors do you think will be most attractive over the next 12-24 months? Which are most challenging to invest in? (Please select up to three for each column)**





further strength in the first half of 2019 (Figure 17). It has also been one of the most deal heavy sectors since 2013, accounting for 18% of deal value and volume (Figure 18). While it is unlikely that the sector will finish this year ahead of last, by all historical comparisons, TMT dealmakers are on target to post strong values and volumes again this year.

### Consumer: Accessing new customers

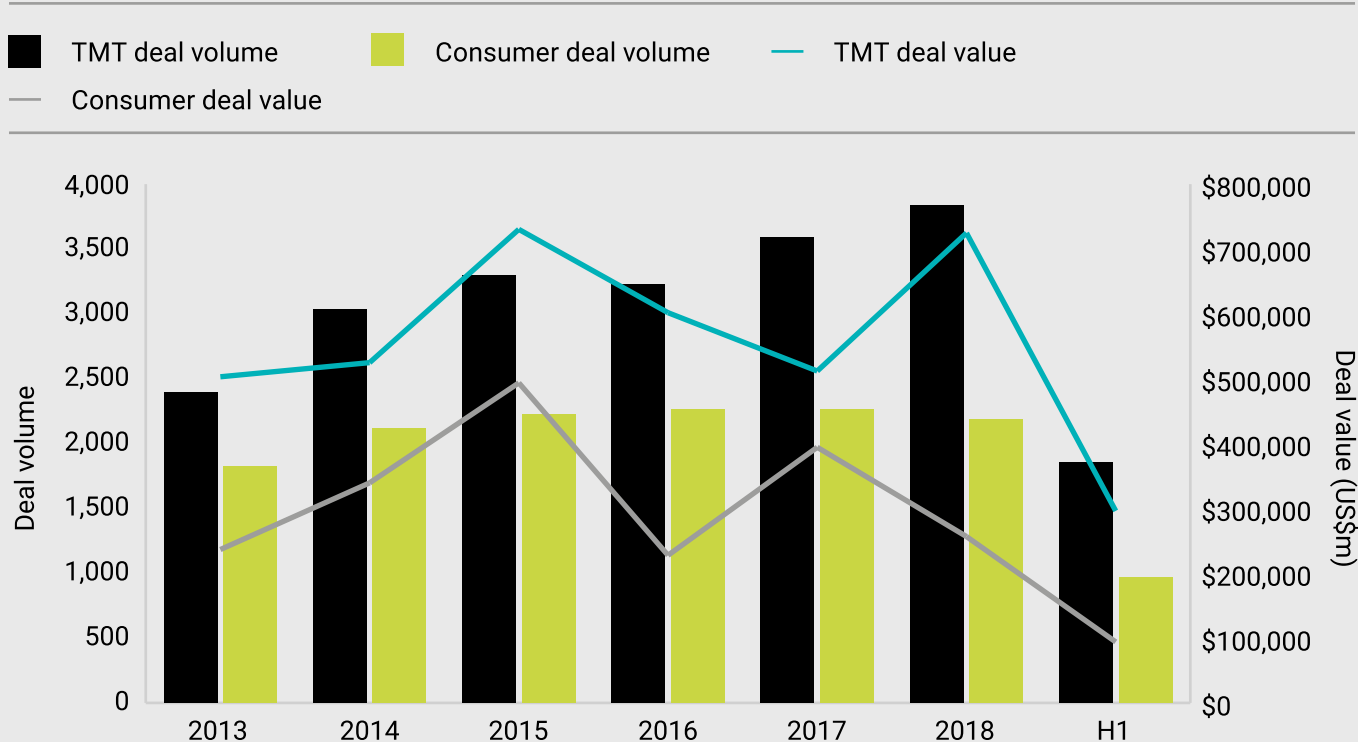
In consumer, meanwhile, the attractions of the sector reflect different drivers. In developed economies, where growth has slowed in recent years, profitability is under pressure across the consumer sector. Consolidation has therefore been a deal driver (distressed assets have also come on to the market). In developing economies, meanwhile, the burgeoning middle-class populations of countries such as China, India and Indonesia provide fast-growing new markets for consumer businesses, and M&A represents a means of accessing such opportunities.

One other factor in consumer M&A has been the

**65% of TMT deals with disclosed values since 2013 were mid-market (US\$15m-US\$500m) deals**

**64% of consumer deals with disclosed values since 2013 were mid-market (US\$15m-US\$500m) deals**

**Figure 17: M&A sector trends**



desire of the largest companies in the sector to rationalize their portfolios in the face of the undoubted market challenges. This has provided impetus to divestment activity.

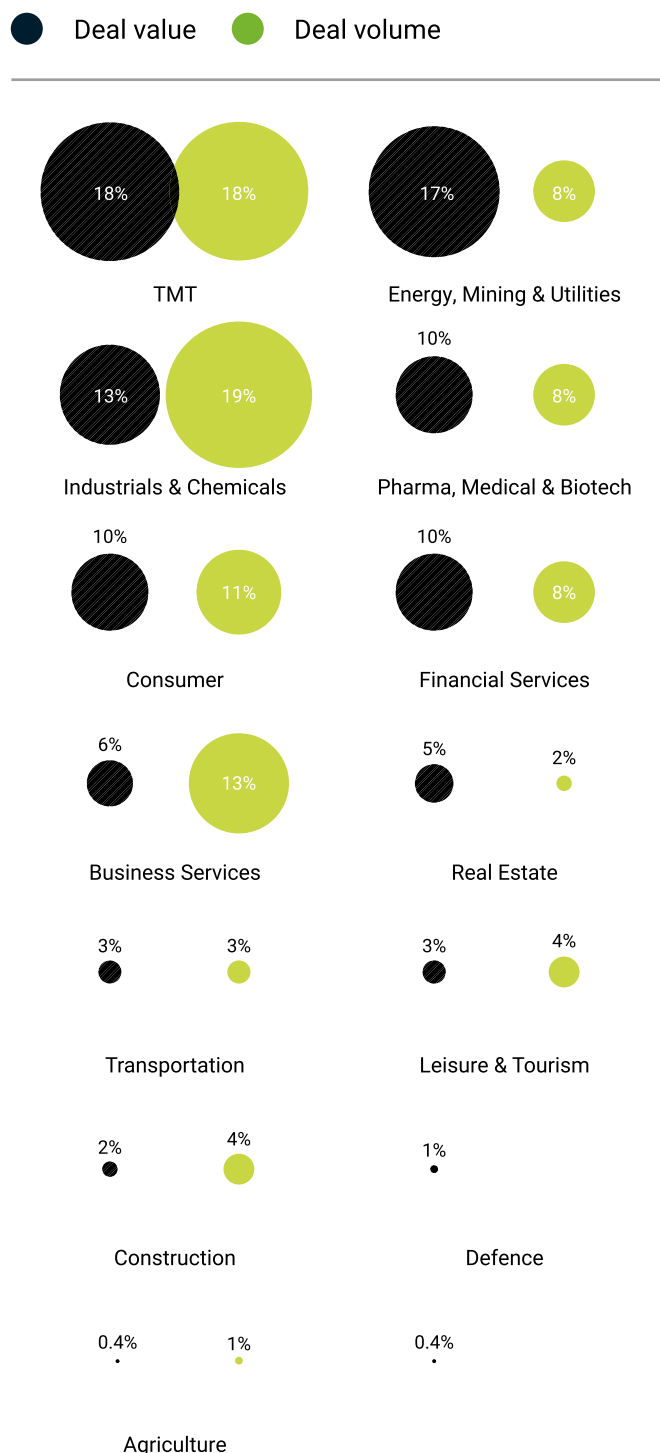
Last year saw the consumer sector break a five-year run of increased deal volumes, though total deal values were well down, falling back to around US\$256bn after from US\$394bn in 2017. The deal activity recorded in the sector during the first half suggests there may be a further decline over the course of 2019. However, while dealmaking amongst consumer businesses certainly looks unlikely to match the records achieved in 2017 anytime soon, there were still 966 deals worth a little over US\$94bn during the first six months of this year.

## Challenging sectors

As for more challenging sectors, government contracts continue to throw up difficulties as the public sector tightens its belt in indebted nations, while construction is a front-line victim of slowing global growth. Defense, too, will come under pressure if governments are forced to rein in spending.

Overall, the headwinds facing M&A in the years ahead are underlined by the fact that in eight sectors, respondents are more likely to see the industry as prompting challenges than attractions. The opposite is true for only six sectors.

**FIGURE 18: M&A sector trends (2013-H1 2019)**





# Going global: **Key considerations when completing cross-border M&A**

**Dealmakers face both big-picture concerns and technical challenges as they pursue cross-border M&A. Devoting more resources to due diligence and choosing the right advisors may mitigate some of these challenges.**

The current market is both challenging and complex, with various factors coming together to create conditions that could see more deals fail than succeed. As the results show, respondents identify the challenges they face at a macro level and those specific to the deals they will complete in future.

## Macro challenges

Citing their top concerns, 81% of respondents say regulatory hurdles present the greatest challenge when completing cross-border M&A (Figure 19). Another 71% point to macroeconomic and geopolitical uncertainties. In an uncertain world, where protectionism is on the rise and volatility is to the fore, these concerns are unlikely to dissipate any time soon.

Certainly, political issues such as the US-China trade dispute and Brexit in Europe look set to continue to dominate for the near term. The fall-out from the former threatens to spill over into regulatory reform, with a growing willingness in some countries to use competition law and similar statutes to protect domestic companies from international buyers. The end of consensus on regulation in industries such as financial services is likely to add to the burden, with dealmakers facing different regimes in different jurisdictions. The global reach of compliance regimes, meanwhile, adds to the complexity of cross-border activity.

## Deal challenges

At a deal process level, post-merger integration (77% of respondents) and deal sourcing (64%) are also significant challenges. “We are mostly concerned with the post-acquisition integration process,” says one respondent. “This results in many questions and dispute between teams; although we are precise about this during negotiations, interpersonal relationships and ideas cannot be predicted.”

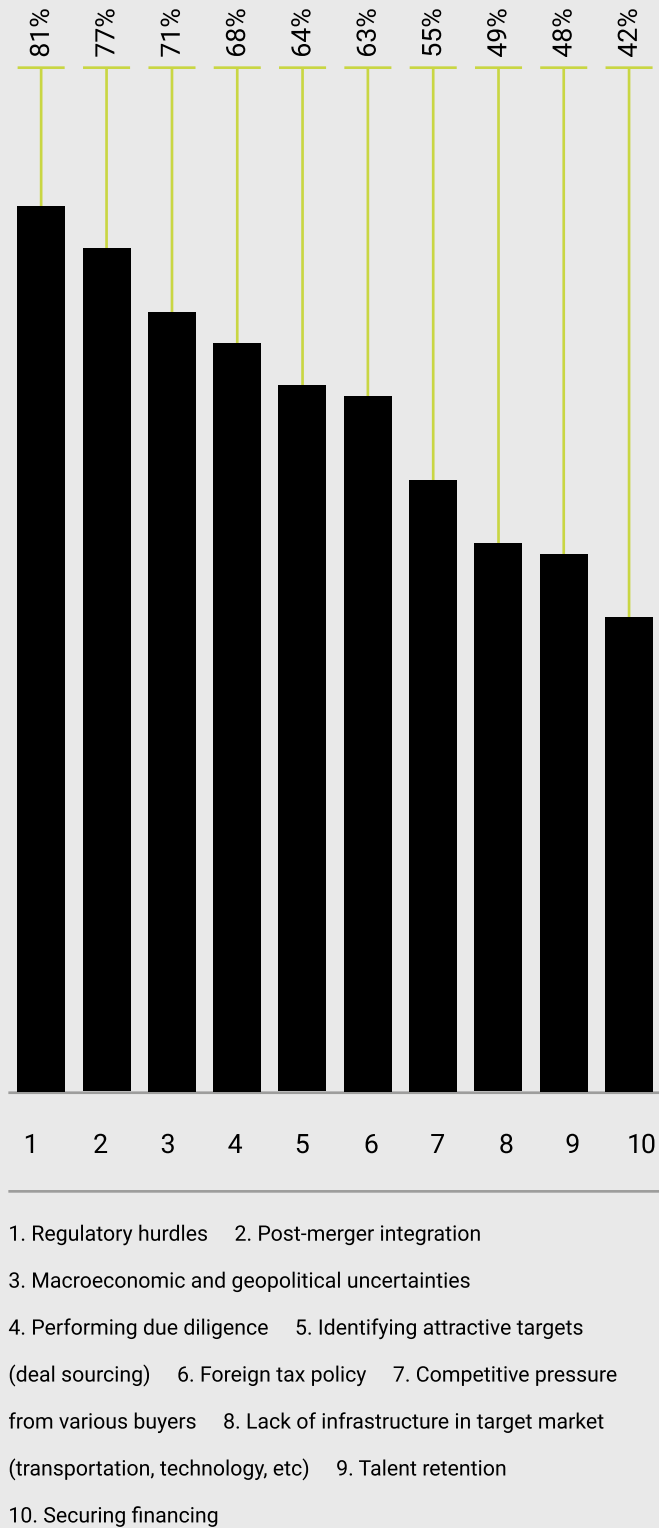
The difficulty of performing thorough due diligence can also cause issues, with dealmakers now required to conduct more exacting scrutiny of every aspect of potential acquisitions in order to avoid bear-traps. Close to two-thirds (68%) of respondents say this is a primary concern as they pursue deals. “Targets might seem attractive at first, but we need to be cautious as to the actual performance in the past, compliances maintained and the expected numbers after integration,” remarks one respondent.

Indeed, significant numbers of deals fall apart before completion, as problems are uncovered at the due diligence stage. More than half the respondents in this research (55%) say they have had at least one cross-border transaction collapse before reaching completion (Figure 20).

***One of the greatest limitations of a competitive process is the lack of time the acquirer and the target get to spend together understanding the business, opportunity for the future and knowledge of personalities which enables the parties to hit day one well positioned for collaboration and integration, which can only be a good thing for positioning the combined group for success. The challenge remains for parties to achieve the same outcome where a competitive process is necessary.***

**Hermann Stangl**  
**Latin America Corporate Finance Lead**

**FIGURE 19: What are your primary concerns when completing cross-border M&A?**



## Deal teams

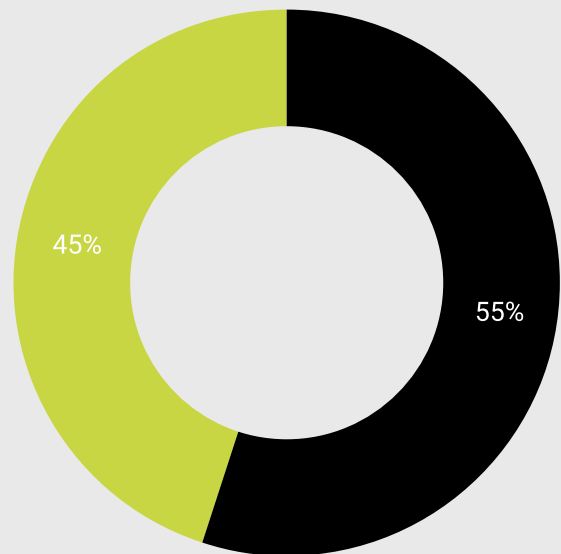
To chart their way through these troubled waters, dealmakers increasingly need access to teams of multi-disciplinary experts providing special functional, geographic support as they identify targets and move through the deal process. Almost all respondents (95%) used a legal advisor in their most recent cross-border acquisition, but most also used a significant number of other consultants too (Figure 21).

Financial and tax due diligence advisors (used by 89% of dealmakers) win particular praise for their effectiveness, with strategy consultants (85%), risk consultants (80%) and environmental consultants (71%) also figuring highly. By contrast, only two-thirds of respondents (67%) used an investment bank in their last transaction, and only 3% picked such an advisor out for its effectiveness.

As deal complexity increases, the trend over time appears to be towards making greater use of advisors. "The consultants that advised on the dealmaking essentials and optimum schedule were crucial to the ultimate decision and negotiation process," says one

**Figure 20: Have you ever had a cross-border M&A or investment collapse (not reach completion)?**

■ Yes ■ No



respondent of their last deal. “They provided much needed insight and various risk perceptions that helped with the decision-making process.”

## Due diligence: Key areas

Legal issues (93%), compliance (89%) and tax (83%) were the most important areas of focus for due diligence in respondents’ most recent deals, though many also said they had prioritized environmental, political, commercial and HR diligence (Figure 22).

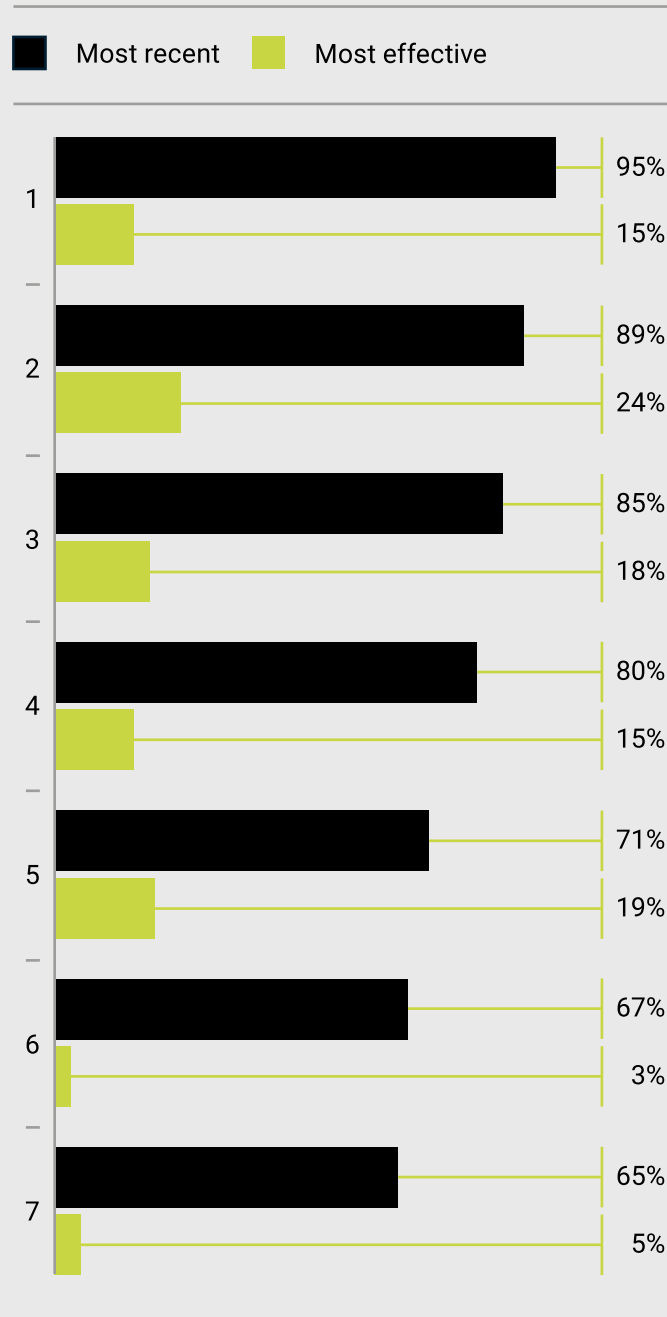
“We covered all required due diligence procedures to remain thorough,” says one respondent. “Recently, it has been important to cover all aspects of the business and asset classes in possession of the target. Neglecting any one of the above could hamper subsequent negotiations and tasks.”

In future deals, certain areas may move up the priority list. For example, 62% of respondents said they wished they had spent more time investigating environmental risks. And while legal, compliance and tax issues were most likely to capture due diligence attention, significant numbers of respondents still singled out these areas as worthy of additional resources in future deals.

**Targets might seem attractive at first, but we need to be cautious as to the actual performance in the past, compliances maintained and the expected numbers after integration.**

*Survey respondent*

**Figure 21: Which of the following advisory groups did you utilize in your most recent cross-border acquisition/investment? Which were most effective?**



- 1. Legal advisor    2. Financial and tax due diligence advisor
- 3. Strategy/management consultant    4. Risk consultant
- 5. Environmental consultant    6. Financial advisor (investment bank)
- 7. HR consultant

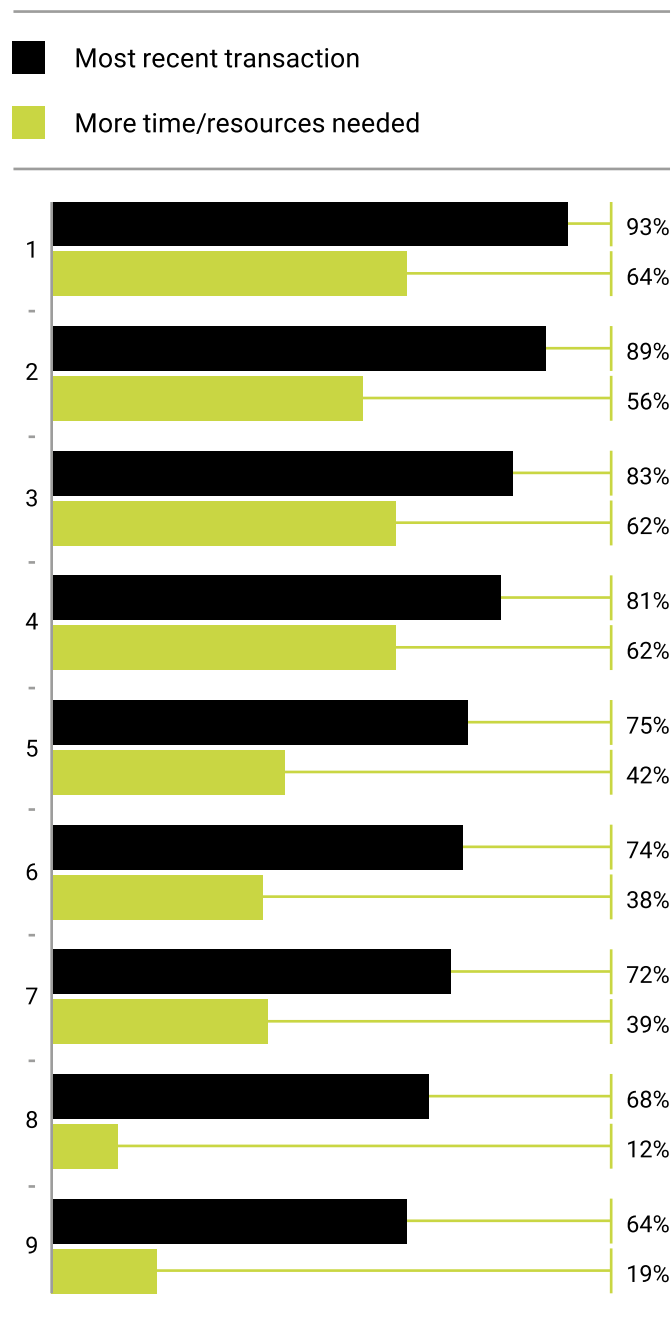
**The added complexity of cross-border deals lends itself to integrated teams who can take a holistic view as to the commercials of the deal – but you also need a team that can manage the additional risks of cross-border deal structuring and tax jurisdictions. Baker Tilly member firms specialise in combining their local knowledge and expertise with the international capability and collaboration that comes with being part of one of the world's largest networks.**

**Baker Tilly Corporate Finance Specialist**

**The consultants that advised on the dealmaking essentials and optimum schedule were crucial to the ultimate decision and negotiation process. They provided much needed insight and various risk perceptions that helped with the decision-making process.**

**Survey respondent**

**Figure 22: What type of due diligence did you undertake in your most recent cross-border acquisition? Which area should you have spent more time/resources investigating?**



- 1. Legal    2. Compliance/Business ethics    3. Tax
- 4. Environmental    5. Political (risk)    6. Commercial    7. HR
- 8. Financial    9. Technical

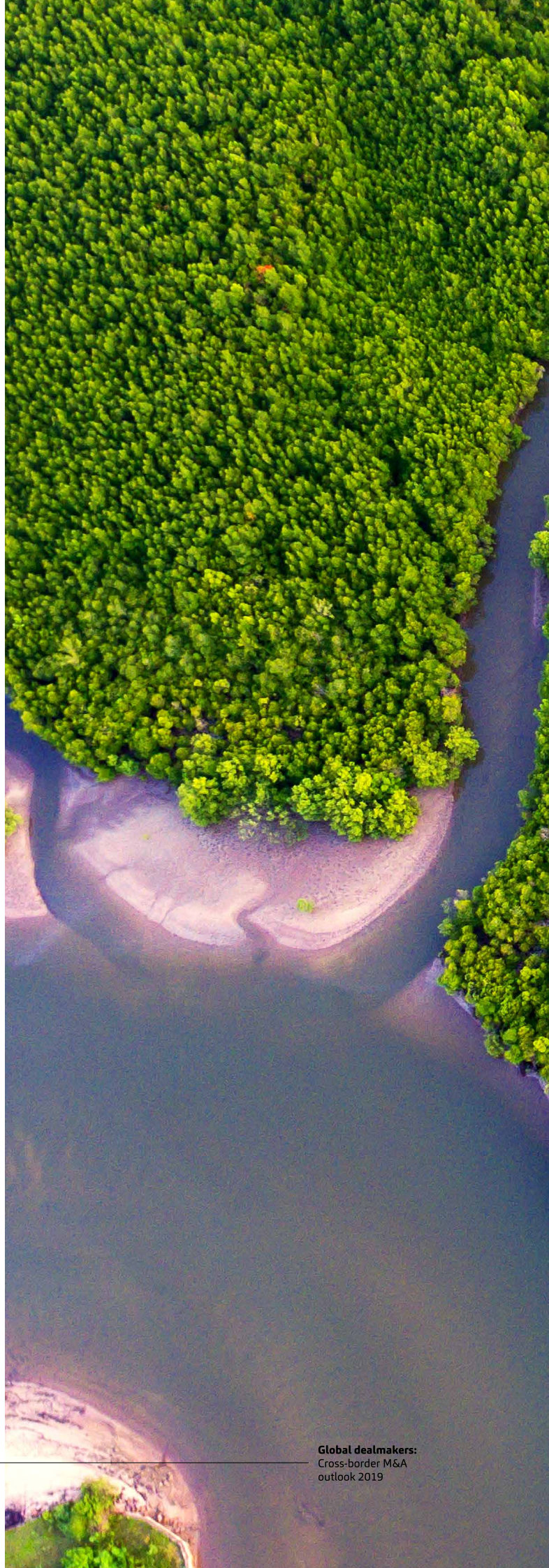
# Conclusion

While 2019 has seen the M&A deal volumes and values slow from the levels recorded in 2018, there is no reason to expect any significant decline in activity over the year ahead. The vast majority of respondents to this survey expect activity to at least be sustained at current levels, including more than half who expect an increase.

There are good reasons for this confidence. While challenges such as trade tensions, Brexit and the slowing global economy will give dealmakers pause for thought as they contemplate M&A, the imperatives driving the marketplace are as strong as ever. In the search for growth, multi-national businesses will continue to need to secure access to new customer bases and markets; M&A represents an opportunity to do so ahead of the competition. In addition, the rapid pace of technological change requires many industries and businesses to transform more quickly than ever before; again, M&A is often their best hope of doing so.

The challenge for dealmakers will be to address these imperatives even in the face of the headwinds that have picked up since 2018. How successfully they deal with the growing complexity of the marketplace will now determine their competitive advantage for years to come. Rather than walking away from cross-border M&A, dealmakers must find ways to identify the best opportunities and to mitigate risk in this more difficult environment. They must hone in on the most attractive targets, particularly in key markets such as North America and Asia, increasing their prospects of success with carefully managed deal planning, execution and integration processes.

The importance of assembling a strong M&A team, with relevant expertise and experience, cannot be understated. Securing these skills will improve the deal process at every stage, reducing the risk of pursuing inappropriate deals, or suffering the negative impacts as M&A collapses at a late stage of due diligence. Those dealmakers not confident they have sufficient expertise in-house will need to quickly acquire it, both through recruitment and the hiring of high-quality advisors.







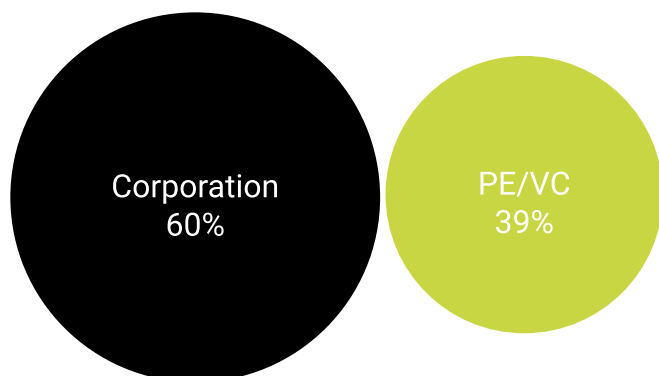
# Methodology

From July to August 2019, Baker Tilly International commissioned Acuris Studios, the publishing division of Acuris, to canvas the opinions of 150 dealmakers to gauge their opinions on global M&A opportunities, trends and challenges. Respondents were evenly split and based in the following regions: Asia Pacific, North America and Europe. All respondents have completed multiple domestic and cross-border M&A transactions in the past five years.

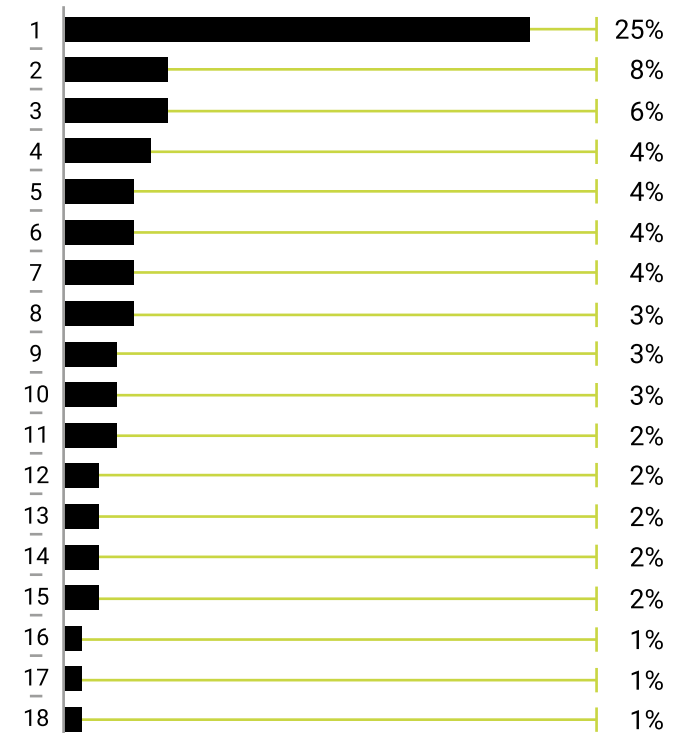
Within the graphed survey results, percentages may not sum to 100% due to rounding, or when respondents were allowed to choose more than one answer.

All quoted data is propriety Mergermarket data unless otherwise stated. All deals are based on announced transactions.

How would you categorize your company?

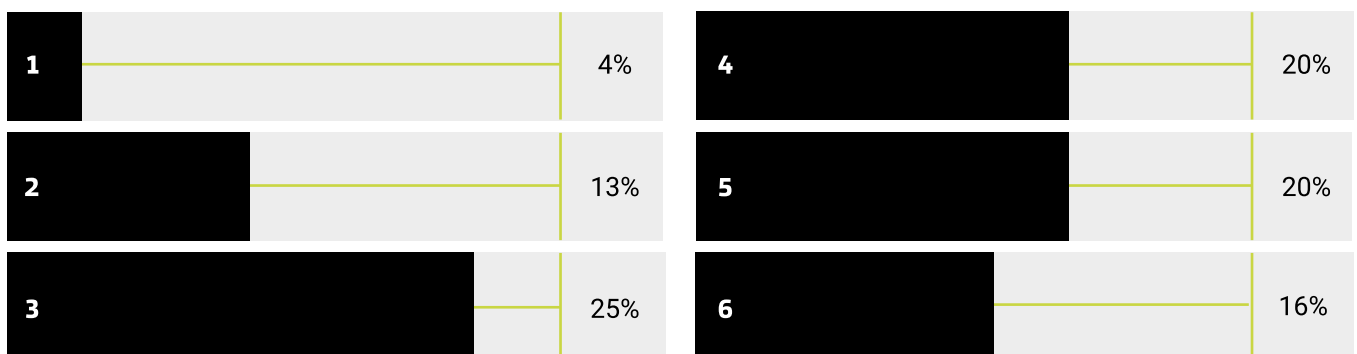


Where is your firm based? (Select region and the specific country)



- 1. USA   2. Australia   3. United Kingdom   4. Canada
- 5. Germany   6. Hong Kong   7. Japan   8. Sweden   9. India
- 10. Norway   11. South Korea   12. China   13. France
- 14. Singapore   15. Switzerland   16. Finland   17. Italy   18. Spain

What was your company's most recent annual revenue (US\$)?



- 1. Less than \$499 million   2. At least \$500 million but less than \$1 billion   3. At least \$1 billion but less than \$5 billion   4. At least \$5 billion but less than \$10 billion
- 5. At least \$10 billion but less than \$20 billion   6. \$20 billion or more

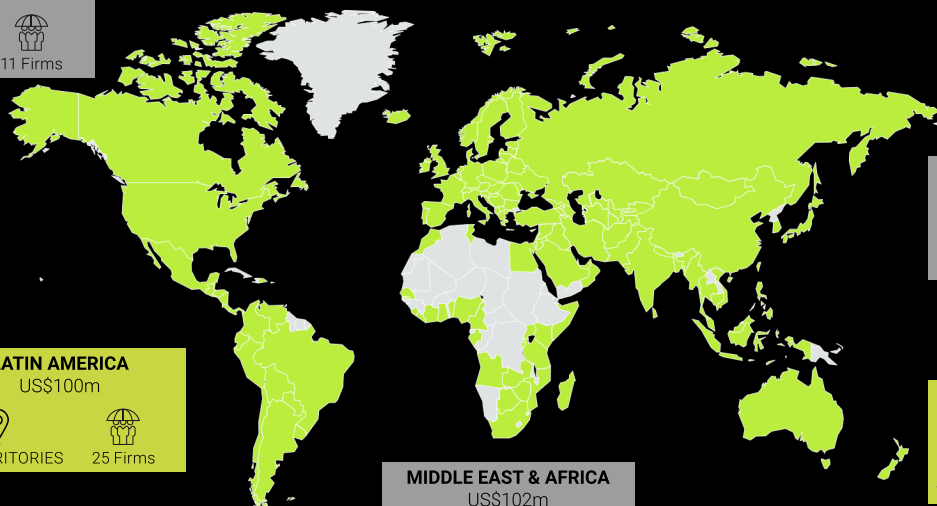


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**NORTH AMERICA**  
US\$1,595m

2 TERRITORIES 11 Firms



**EUROPE**  
US\$1,079m

53 TERRITORIES 45 Firms

**LATIN AMERICA**  
US\$100m

31 TERRITORIES 25 Firms

**MIDDLE EAST & AFRICA**  
US\$102m

36 TERRITORIES 25 Firms

**ASIA PACIFIC**  
US\$763m

23 TERRITORIES 20 Firms

746 OFFICES

145 TERRITORIES

126 MEMBER FIRMS

34,700 PEOPLE

US\$3.6bn  
COMBINED GLOBAL REVENUE  
6.5% INCREASE ON FY17



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