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Global deal activity to accelerate in 2018

- **M&A value to exceed $3 trillion in 2018**
- **IPO value to improve by more than 50% over 2017 to nearly $300 billion**
- **Uncertainty persists over potential protectionist measures in key economies**
- **Deal activity to peak in North America and Europe 2018; rest of world in 2019**

Global, 13 November 2017 - The easing of key economic and political risks and the emergence of positive macroeconomic deal drivers will accelerate global deal activity in 2018, reveals the third edition of the Global Transactions Forecast issued by Baker McKenzie.

2017 has been a period of apprehension for global dealmakers and while economic growth has certainly slowed, the cliff-edge some were predicting has failed to materialize. Following on the momentum created in the second half of 2017, The Global Transactions Forecast, developed in association with Oxford Economics, predicts a cyclical peak in 2018 for several macroeconomic and financial deal drivers, with 2018 marking the high point of the deal cycle for the world's largest transaction centers.

The forecast highlights why investors around the world are feeling increasingly confident as 2018 approaches, with appetites strengthened by positive trends such as more-buoyant world trade and economic growth, elevated equity valuations, and the prospect of cheaper financing in emerging markets.

"After a few soft patches in 2017 we have a more optimistic outlook for the global economy and dealmaking in 2018, as long as the brakes are not put any further on global free trade. We see an uplift in both M&A and IPO activity as dealmakers and investors gain greater confidence in the business prospects of acquisition targets and newly-listed businesses," said Paul Rawlinson, Baker McKenzie's global chair. "However it's not a done deal, with the threat of a Hard Brexit and a NAFTA collapse both still very real. Business will need to continue to make the case for liberal trade and investment frameworks."

M&A outlook

Baker McKenzie's previous forecast in January 2017 predicted a flat M&A market this year with a modest decline in global M&A values, from US$2.8 trillion in 2016 to US$2.5 trillion in 2017.

Baker McKenzie's global head of M&A, Michael DeFranco, said, "2017 played out as we predicted and there have been a number of positive developments in the global economy that have led to the forecast for global M&A values in 2018 to be increased from our previous forecast of US$3 trillion to US$3.2 trillion. This would represent the 3rd highest yearly deal value since 2001 and the 2nd highest since the financial crisis in 2008."

In addition to positive economic developments, underlying strategic drivers like the search for growth and yield, the use of consolidation to achieve synergies, the deployment of unspent capital, and the use of M&A to drive business model changes will aid the increase of M&A activity in 2018.

According to the report, a range of factors will cool deal activity from 2019 onwards particularly in developed markets, including higher interest rates, a cyclical easing in global trade and investment growth, and a correction in equity prices back towards fundamentals. The forecast predicts M&A values to drop to US$2.9 trillion in 2019 and US$[2.4 trillion] in 2020.

IPO outlook

In the IPO market, the forecast predicts values to climb from US$187 billion in 2017 to a cyclical peak of US$290 billion in 2018, a near record-breaking number. This is a little higher than the previous cyclical peak of US$276 billion in 2014, but remains below the US$300 billion-plus raised during the previous peak in 2010. However, the forecast does not include Saudi Aramco's proposed IPO due to uncertainty over the amount of proceeds the IPO will raise and its timing. If the deal does go through in 2018, it will be a record year for IPO listings by value.

"As anticipated in our last forecast, the IPO market has rebounded in 2017, ahead of the M&A cycle. At the global level, domestic IPOs rose to US$145 billion in 2017, up from US$92 billion in 2016, and we forecast that domestic IPO activity will continue to rise, to a peak of over US$220 billion in 2018," said Koen Vanhaerents, global head of capital markets at Baker McKenzie. "However, as equity valuations become more stretched, and borrowing costs start to rise, the value of domestic IPO proceeds may be expected to cool in subsequent years."

Similar to M&A activity, a range of factors will cool deal activity from 2019 onwards and the forecast calls for IPO values to drop to US$274 billion in 2019 and US$187 billion in 2020.

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Sectors

M&A accelerated in the consumer, energy and basic materials sectors in 2017, bolstered by megadeals. Given the potential for stronger global consumer spending in 2018, the report predicts even more dealmaking in the consumer sector in 2018, rising to US$633 billion, along with finance, which is forecast to reach US$616 billion.

While underperforming in 2017, the pharmaceutical and healthcare industry is positioned for higher levels of dealmaking due to long-term trends such as aging and demographics. The technology and telecommunications industry also dropped in 2017 but several trends of embedding new technology across sectors, plus activist investment in technology firms by emerging markets such as China and Saudi Arabia, suggest that deal values will rebound in the next two years.

"The pervasive expansion of emerging technologies across industries, including foodtech, fintech, and the automotive sector, will drive M&A activity as we expect to see more cross-sector deals involving technology in the next couple of years," added DeFranco.

The technology and telecommunications industry is expected to drive the rebound in IPO activity in 2018, aided by the Chinese government's efforts to spur technology firms to go public. With household spending remaining strong globally, consumer goods & services companies should also benefit from positive market conditions.

Regions

North America and Europe are forecast to reach cyclical peaks for M&A and IPO activity in 2018. North America M&A activity is forecast to pick up to US$1.5 trillion, a 15 percent increase over 2017, and domestic IPOs are forecast to reach an all-time high of US$78 billion in 2018, a 77 percent increase over 2017. Europe M&A activity is forecast to reach US$856 billion, a 34 percent increase over 2017, and domestic IPOs to US$60 billion in 2018, a 58 percent increase over 2017.

Asia Pacific, Latin America, and the Middle East and Africa are forecast to reach cyclical peaks for M&A and IPO activity in 2019. Asia Pacific M&A activity is forecast to peak at US$754 billion and domestic IPOs at US$82 billion in 2019. Latin America M&A activity is forecast to peak at US$134 billion and domestic IPOs at US$7.5 billion in 2019. Middle East and Africa M&A activity is forecast to peak at US$41 billion and domestic IPOs at US$7 billion in 2019.

ENDS

Notes to editors

Global Transactions Forecast

Oxford Economics have used statistical techniques to estimate the historic relationship between M&A and IPO activity and key drivers, such as GDP growth, equity prices, trade flows, money supply, legal structure and property rights and freedom to trade.

Based on their forecasts for GDP growth along with anticipated changes to the other criteria in each of the 40 markets has allowed OE to project the future value of M&A and IPO transactions. These predictions have also benefitted from Baker McKenzie partners around the world giving their views on the latest trends in their market and the likely evolution of transactions in their country.

In estimating global transactional activity, the forecast uses data on completed deals rather than announced deal values. From an analytical modeling perspective, it makes more sense to use completed deals for forecasting as it reflects actual outcomes. When calculating estimations, Oxford Economics grouped countries according to standard IMF classifications.

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About Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

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