

IMAP

Trends in Global M&A 2018-2019

An IMAP survey of 100 senior M&A advisors across 30 countries



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In November 2018, IMAP conducted a survey of 100 senior IMAP M&A advisors across 30 countries worldwide.

Based on their experiences, advisors were asked about M&A market and deal making conditions in 2018 compared to 2017, as well as expectations for 2019.

IMAP advisors were solicited for their thoughts on:

1. Market activity and deal flow
2. Deal environment and dynamics
3. Types of transactions and motivating factors
4. M&A valuation multiples
5. Regional risks and opportunities

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Chairman's View

2019 Expectations

One of the many advantages of being part of a global M&A organization is the ability to have a broad perspective on the global macro environment and having the opportunity to tap into the nuances of regional market sentiment. The document before you is the result of a survey of our IMAP partners from around the world late last year to obtain qualitative information about their views of M&A markets in 2018 with an outlook for 2019, providing insights that cannot be inferred by simply studying data about completed transactions.

Globally, IMAP's advisors found 2018 to be better for both deal flow and with higher multiples than 2017, with Technology and Healthcare the star performing sectors attracting the highest deal multiples, and both are expected to remain the frontrunners in 2019.

While it's interesting to look back, indicators are that, at least in the first half of 2019, global GDP growth will continue to decelerate, adding to declines from 2018, and liquidity will shrink, hampering financing for leveraged transactions. Interestingly though, 54% of IMAP advisors are 'somewhat' or 'significantly optimistic' about M&A in 2019. Similarly, almost half are expecting an increase in deal volume growth in the coming year.

Looking at the regional differences, our North American, Scandinavian & Asian partners are expecting a moderate increase in deal volume. The US economy, the only major

economy still growing, will slow down y-o-y as the effects of major tax cuts from last year wear off, however this may be still be months away.

Our Western European partners are expecting a moderate decrease, reflecting the recent slowdowns in Europe, especially in Germany, reflecting a world-wide slowdown in the automotive sector. Predictably, the UK & Ireland cite Brexit as the biggest uncertainty and risk to the market, regardless of outcome.

Our Latin American colleagues are the most optimistic having patiently waited for political and economic improvements across the continent. But emerging markets may continue to be weaker because of the strength of the dollar and weak commodity prices, but hopefully, this situation will stabilize, perhaps in Q3 2019. Commodity prices (industrial metals, oil) are likely to remain at their currently depressed prices because of a Chinese demand slowdown, although there should be some bounce from current low levels.

Succession is mentioned as one the top three drivers of mid-market M&A activity in all regions, especially in the US and Europe. An increasing number of baby-boomers, owners of private companies are looking for successors and expect to transition within the next 5-10 years.

IMAP advisor sentiment is that technology acquisition will continue be a major factor driving M&A activity in 2019, with the pace of acquisitions of technology related targets or assets by companies in non-tech sectors expected to pick up going forward, although valuations may decline from unnatural valuations over the past year to more reasonable historical levels.

We hope the following global trends and opinions provide some insight to the global M&A markets in the coming year that you may find them useful in evaluating your M&A opportunities in 2019.

Wishing you a prosperous New Year and a successful 2019!

Jurgis V. Oniunas
IMAP Chairman



Market Reflections

2018 In Review

- 2018 was generally a better year for M&A than 2017. The majority of advisors (60%) saw a stronger M&A market, increased deal flow and more active buyers and sellers in the market.
- Approximately half of IMAP advisors found M&A valuation multiples to be higher in 2018 compared to 2017; with Technology and Healthcare by far the 2 sectors fetching the highest multiples.
- The main reasons for company sales in 2018 were competitive pressures, opportunistic responses to offers from strategic buyers and an unwillingness to wait for the next economic upturn.
- The top factors behind company acquisitions in 2018 were the need to execute growth strategies, preference for achieving growth through acquisitions rather than organic processes and strong PE appetite.
- On average, it took a little over 9 months for advisors to complete a sell-side engagement for a non-stressed client in 2018.

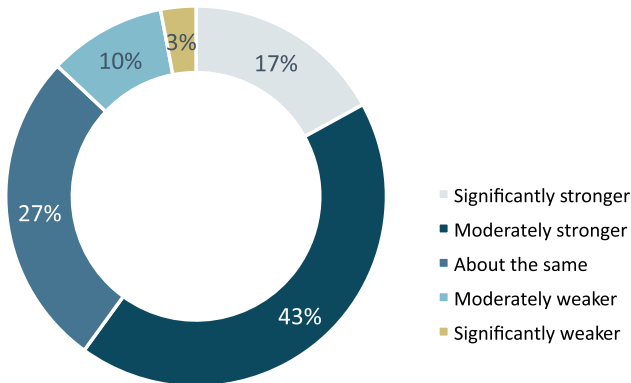
2019 Expectations

- The majority of advisors expressed optimism about prospects for the M&A market in 2019. Headed into the new year, 39% were somewhat optimistic and 15% were significantly optimistic. Only a quarter had no strong feelings one way or another.
- On average, advisors do have some concerns regarding prospects for global economic growth and trade in 2019.
- Half of respondents expect to see more active sellers in the market in 2019 compared to 2018. A geographic breakdown reveals differences across regions. In the USA, Canada, Scandinavia and Asia, most advisors are expecting a moderate increase in deal volume in 2019. In Western Europe however, the majority of advisors are expecting a moderate decrease. In the UK, no major change or perhaps a moderate decrease in deal flow is expected. In Latin America meanwhile, many respondents signaled a significant increase in M&A deal flow as the economic and political situation improves in many countries.
- Horizontal industry consolidation, succession processes, international expansion, growth strategy execution and PE exits are expected to be major drivers of M&A activity in 2019.
- Technology and Healthcare are the two sectors with most expected increase in M&A activity as well as the highest multiple valuations.

2018 vs 2017

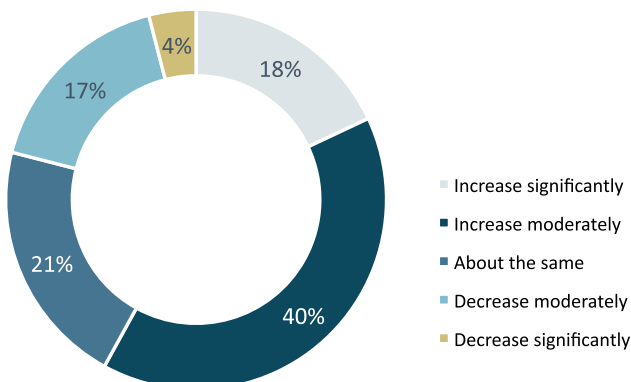
M&A Market Activity and Deal Flow

How would you describe the **overall M&A market and deal flow** in 2018 compared to 2017?



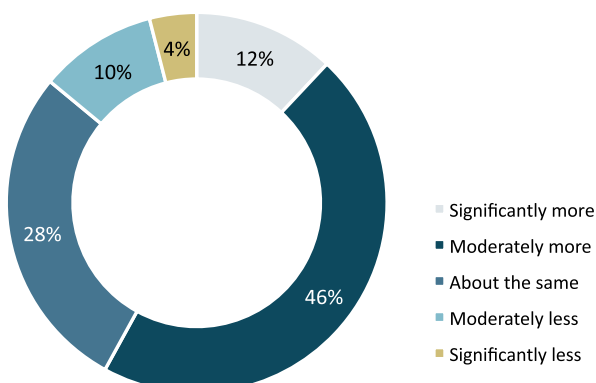
2018 was generally a better year for M&A activity and deal flow compared to 2017. The majority (60%) of advisors indicated that the overall M&A market situation and deal flow were stronger in 2018. Only 13% observed a weaker market.

Did **deal flow** in your company increase or decrease in 2018 compared to 2017?



Results related specifically to deal flow in advisors' own companies are very similar to the overall market. Almost 60% of advisors saw an increase in deal flow in their companies. Just 21% of advisors saw a decline.

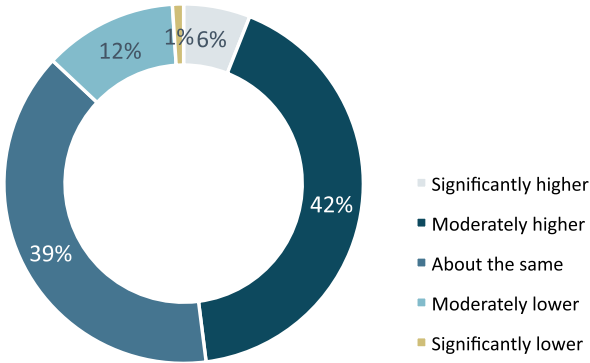
Overall, how many companies were **active buyers or sellers** in 2018 compared to 2017?



Similarly, a majority of advisors found there to be more active buyers and sellers on the market in 2018 compared to 2017. Less than a third (28%) of advisors indicated that the amount of active buyers and sellers was the same.

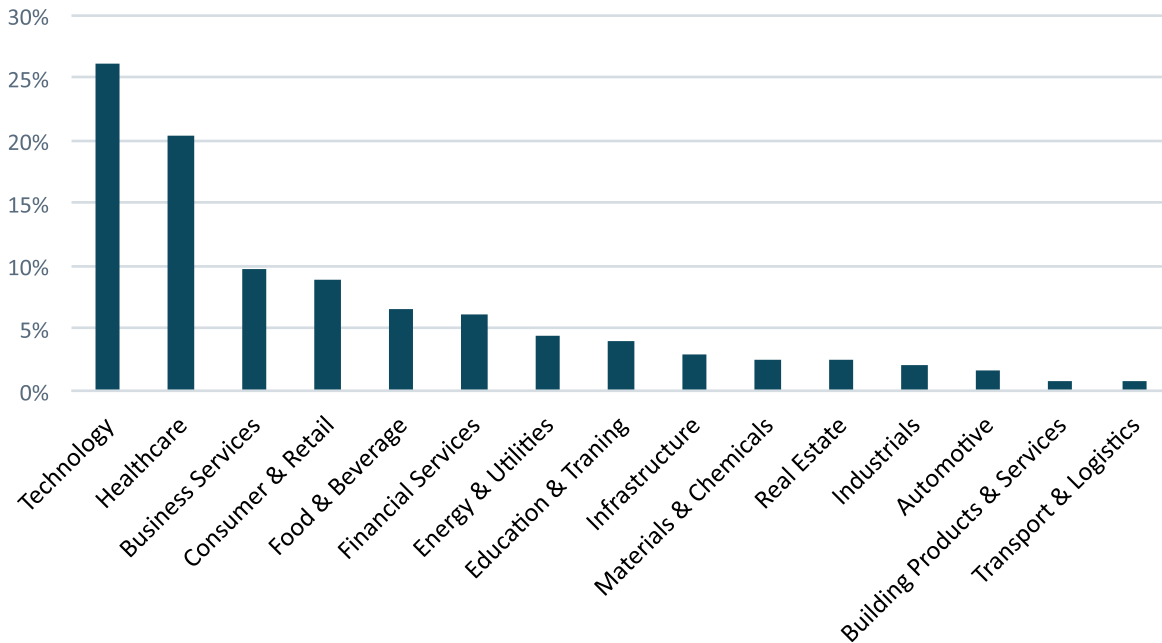
M&A Valuation Multiples

Were M&A **valuation multiples** higher or lower in 2018 compared to 2017?



Roughly half of advisors found M&A valuation multiples to be higher in 2018 compared to the previous year. At the same time 39% of respondents indicated that valuation multiples in 2018 were about the same as the year before.

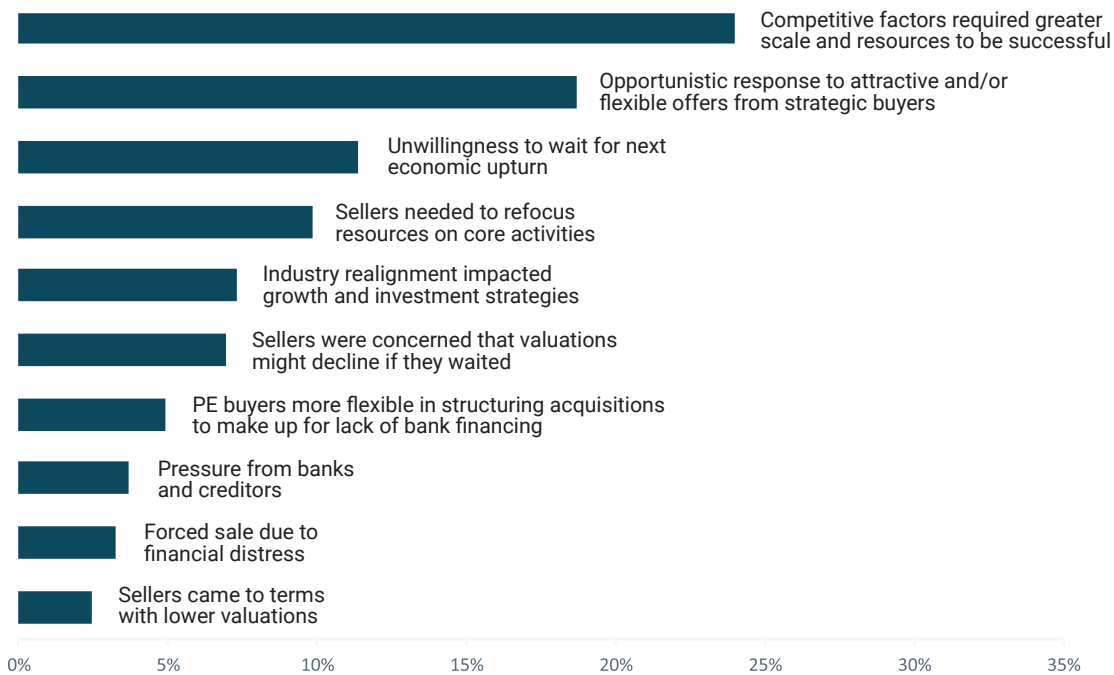
Which sectors had the **highest valuations** in 2018?



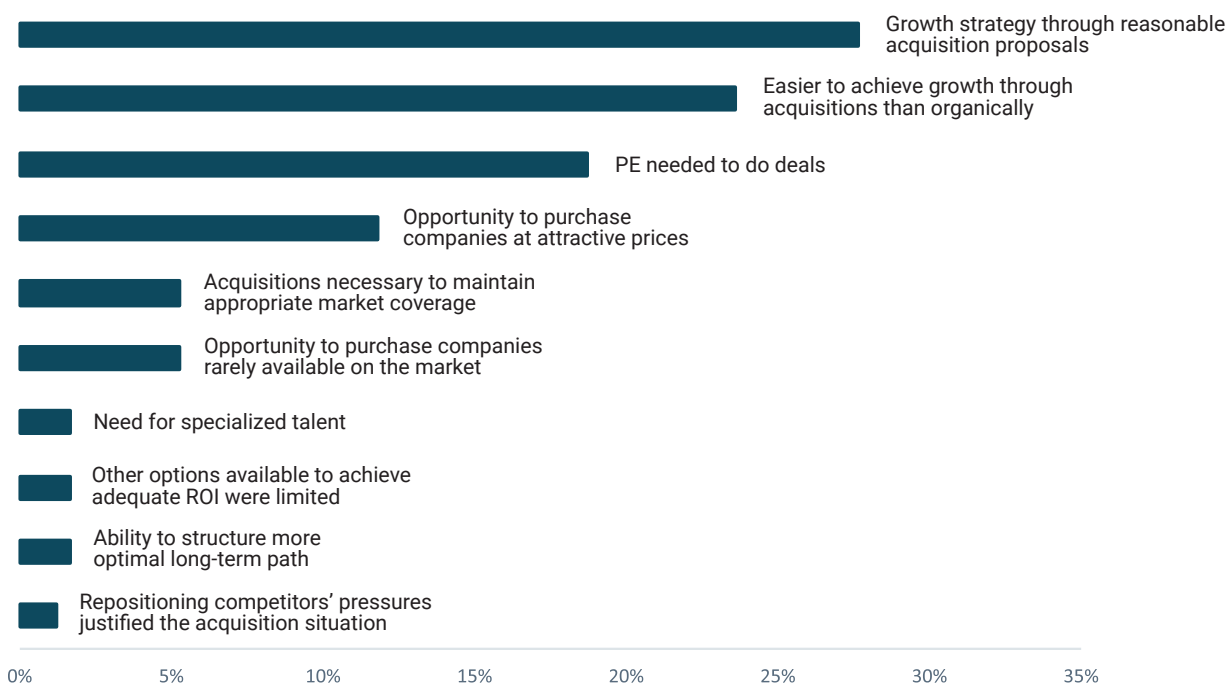
According to advisors, Technology and Healthcare were by far the sectors with the highest valuations in 2018, scoring 26% and 20% respectively. Business Services and Consumer & Retail were also mentioned as high valued sectors and to a lesser extent, Food & Beverage and Financial Services.

Reasons for Selling and Buying

What were the **top reasons sellers sold** in 2018?

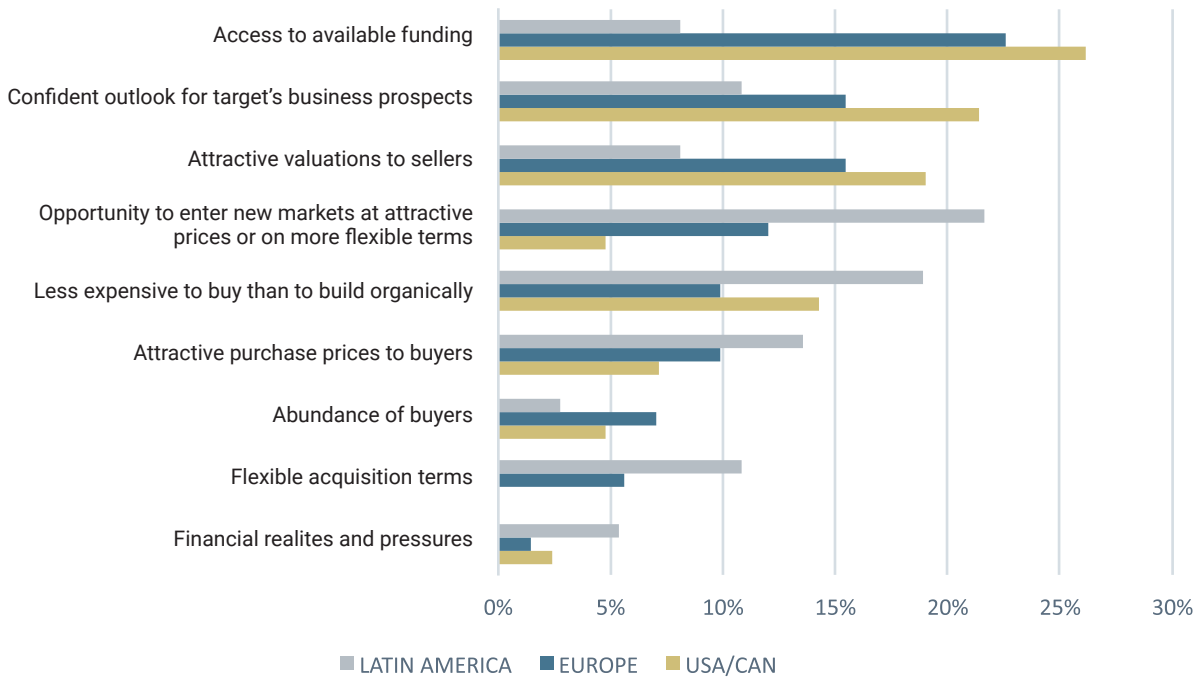


What were the **top reasons buyers bought** in 2018?



Environment and Dynamics

What were the top factors that **helped** M&A transactions get finalized in 2018?



What were the top factors that **inhibited** M&A transactions from getting finalized in 2018?



Environment and Dynamics

How many weeks, on average, did it take to complete the following components of a sell-side engagement for a 'non-stressed' client in 2018?

Discuss, propose and negotiate a mandate	6 weeks
Prepare and market a project	7 weeks
Evaluate buyer prospects	5 weeks
Conduct due diligence	7 weeks
Negotiate purchase agreement and close transaction	6 weeks
TOTAL	31 weeks

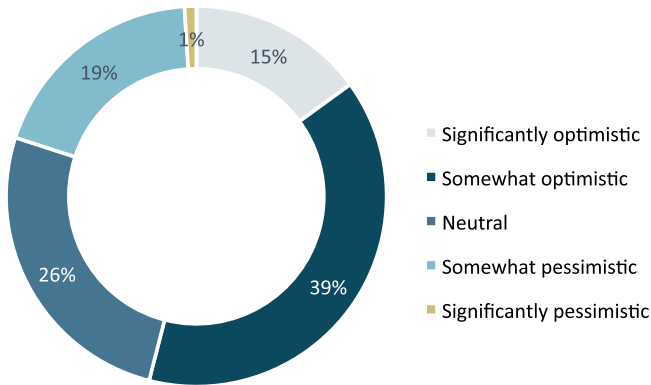
How many months, on average, did it take to complete a sell-side engagement for a 'non-stressed' client in 2018?



2019 Expectations

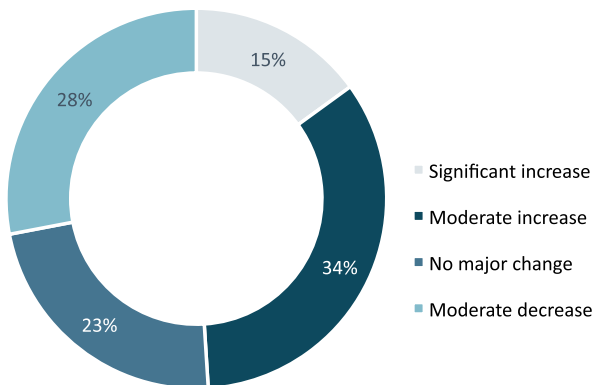
M&A Market and Deal Volume Growth

How are you feeling about the **M&A market for 2019** compared to 2018?



The majority of advisors expressed optimism about prospects for the M&A market in 2019. Headed into the new year, 39% are somewhat optimistic and 15% are significantly optimistic with only a quarter expressing no strong feelings one way or another.

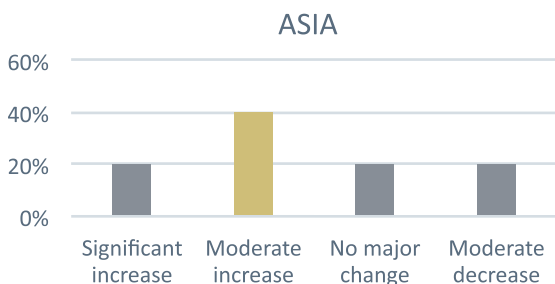
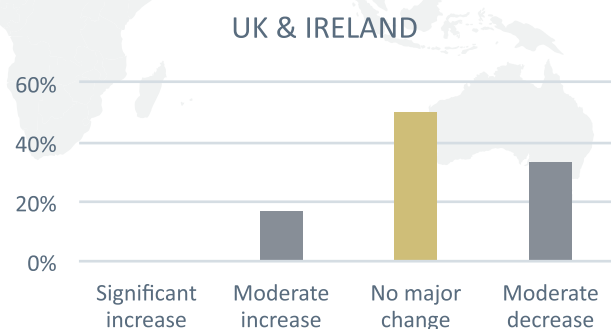
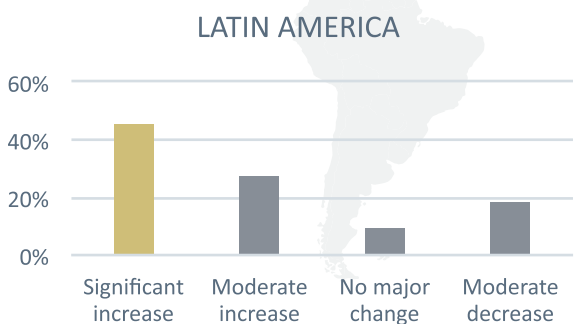
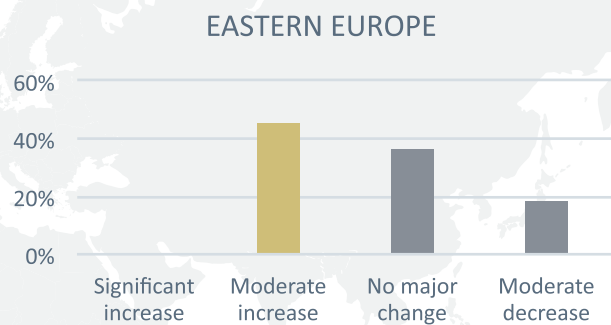
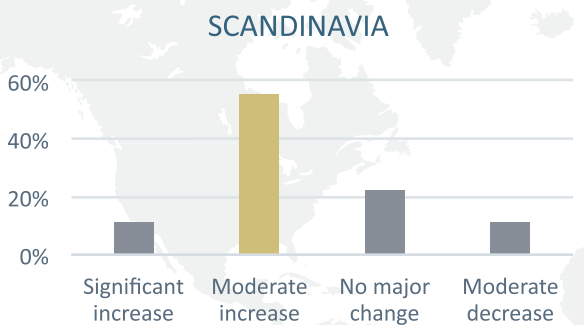
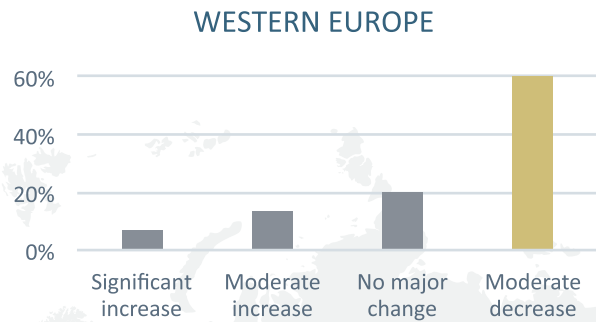
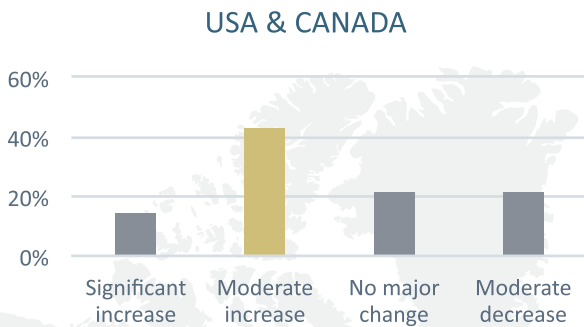
What are your expectations for **M&A deal volume growth** in your market/region in 2019?



On a global scale, approximately half of M&A advisors questioned are expecting an increase in M&A deal volume growth in 2019.

Deal Volume Growth Regional Breakdown

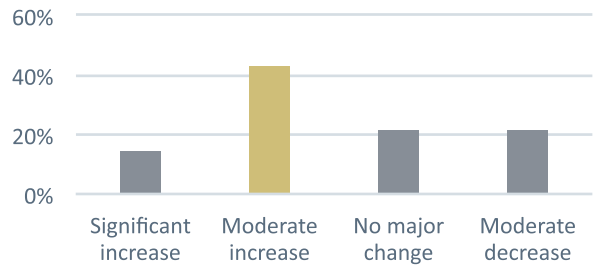
What are your expectations for M&A deal volume growth in your region in 2019?



A geographic breakdown of expectations reveals differences across regions:

- In the **USA and Canada, Scandinavia and Asia**, most advisors are expecting a moderate increase in deal volume. ➔
- In **Western Europe** on the other hand, the majority of advisors are expecting a moderate decrease. ➔
- In **Eastern Europe** a moderate increase or no major change is expected. ➔
- In the **UK and Ireland**, no major change or perhaps a moderate decrease in deal flow is expected. ➔
- In **Latin America**, many advisors signaled a significant increase in M&A deal flow as the economic and political situation improves in many countries. ➔

US & CANADA



"Trade wars and volatile/weak stock markets pose a real risk to access to capital and therefore M&A activity."

Kenneth Skinner, IMAP Canada



"Our political environment creates a lot of uncertainty. Tariffs are having large knock on effects to sectors of our economy not foreseen by political leadership."

Stephen Lewis, IMAP USA



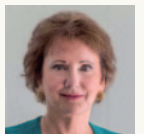
"While there is a strong universe of buyers for quality companies, due to the economic uncertainty from geopolitical events and tariffs as well as the threat of a recession, transaction multiples and corresponding financing will be lower in 2019 than in 2018."

Scott Eisenberg, IMAP USA



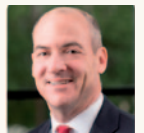
"Expect bullish market with significant M&A activity against a backdrop of a tightening Fed. Multiples seem to be getting softer with premiums paid for more transformational deals as opposed to those steeped in legacy businesses that while profitable face significant headwinds due to disruption in their end markets and/or supply chains."

Maegan Evans, IMAP USA



"The economy remains strong and acquirers remain very active. I believe an economic downturn is still a couple of years away so M&A activity should remain robust. Technology continues to be a driving factor for transactions."

Tom McConnell, IMAP USA

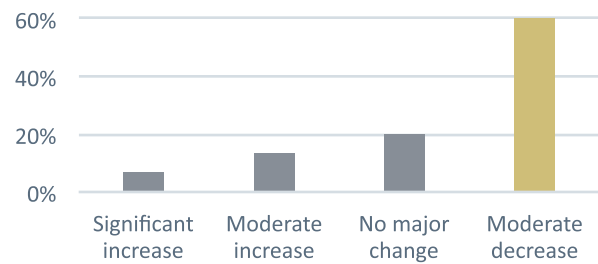


"There continues to be a significant segment of business owners who are approaching an age where transitioning their business will be an issue which has been largely unaddressed. Changing investment perspectives and increasing interest rates, while potentially reducing purchase prices may set up a scenario where business owners feel more comfortable about there being safe places to park sale proceeds with more reasonable yields that encourages them to take action."

Kerry Dustin, IMAP USA



WESTERN EUROPE



"Uncertainty about 2019 second half will decrease the M&A appetite in Spain. Technology driven deals is going to be an opportunity to develop the business."

Alejandro Azcona, IMAP Spain



"Political conflicts between China and US will drive down deals between the 2 countries, while Europe may see an increase of acquisitions from Chinese buyers. Lower Dutch corporate income tax will make Dutch companies more attractive as takeover target."

May Wu, IMAP Netherlands



"Risks: ECB will wind down quantitative easing; Trade-regulations US/China. Opportunities: e-mobility, digitization, age-structure German mittelstand."

Michael Knoll, IMAP Germany



"M&A on domestic business will slow down / take distressed shape given increasing uncertainty. M&A on export business remain similar."

Daniele Sottile, IMAP Italy



"Distressed market will grow in light of conservative lender practice in 2019 and rising amount of special situations, debt funds."

Henning Graw, IMAP Germany



"Opportunities: high number of unsolved successions, PE exits. Risks: deteriorating economy, uncertainty of EURO, rising interest rates."

Carsten Lehmann, IMAP Germany



"We expect a growing M&A activity despite increasing political uncertainties, high market volatility and slower growth prospects."

Alexis Meeus, IMAP Belgium

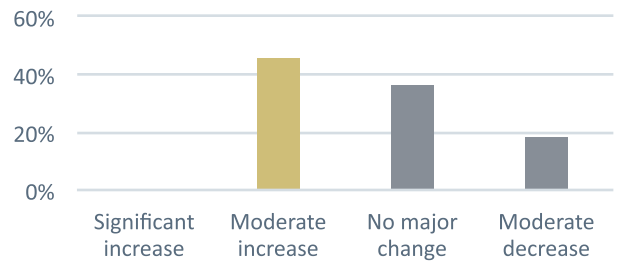


"After an outstanding 2018 year, 2019 initiates a new M&A cycle in which innovation and internationalization will be keys to success."

Cyril Kammoun, IMAP France



CENTRAL EASTERN EUROPE



“Technology companies in CEE are interesting targets for Western peers as they offer new solutions as well as well-trained software engineers and programmers that can be integrated into global cooperation”

Gabor Szendroi, IMAP Hungary



“Being tied to the German economy, lower value-added suppliers in automotive and machining sectors are highly exposed to any major changes in global trade.”

Laszlo Papp, IMAP Hungary

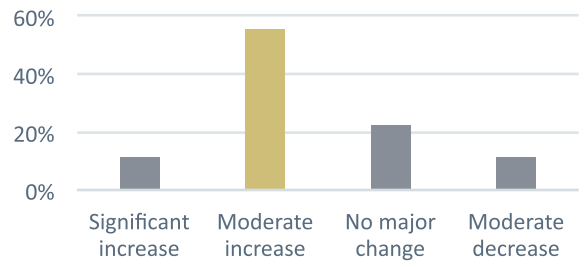


“The Czech market will be under the influence of several key factors. Aging of the first generation of entrepreneurs will continue to be the main driver in the M&A market. Expected interest rate hikes, together with rising wages, will lead to higher acquisition costs and lower profit margins. Furthermore, open economies, such as the Czech Republic or Slovakia, could be adversely affected by potential global trade wars.”

Radek Schmied, IMAP Czech Republic



SCANDINAVIA



"Clear opportunity is the increasing amount of private companies, which have no successors for the business, slow-down of economy is a risk."

Harri Roos, IMAP Finland



"Quite stable market but slowing down a bit. Economic down turn a threat causing insecurity."

Lars Wikholm, IMAP Finland



"Tech pricing very high and will most likely fall in 2019. Infrastructure projects (road and railway) will increase significantly in 2019 both in Norway and Sweden."

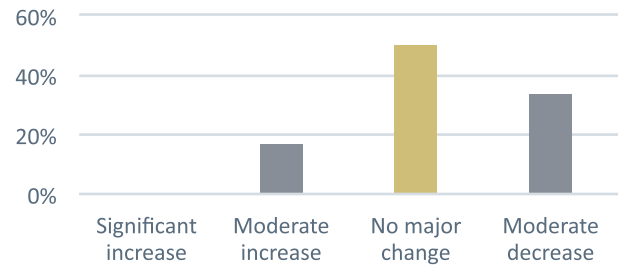
Oyvind Solvang, IMAP Norway



"The Scandinavian TMT market with Stockholm as catalyst, will continue to develop and produce a lot of interesting business opportunities IMAP during 2019"

Bengt Jönsson, IMAP Sweden





UK & IRELAND

"Brexit is the big unknown in the UK. Will the UK be open for business? US trade barriers will impact the largest international buyer group."

Ian Bussey, IMAP Affiliate Partner, UK



"In Ireland, Brexit remains a huge risk as the UK is the largest market for most Irish companies that export. In the event of a "hard" Brexit, these companies may be materially impacted."

John Sisk, IMAP Ireland



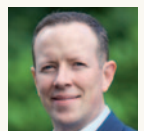
"The uncertainty surrounding Brexit poses significant economic risk for Ireland and the Irish M&A market. That said, a hard Brexit might lead to increased distressed M&A activity. More generally, Ireland is in year 8 of economic expansion, so the cycle will eventually come to a natural end, with or without Brexit."

Tero Tiilikainen, IMAP Ireland

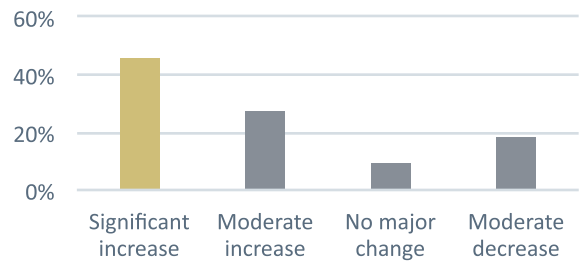


"Activity is currently at peak levels with increasing execution risks to the downside. Central banks are entering a tightening cycle which is being felt across markets and will start to impact underlying economies. Furthermore, given stubbornly low inflation and growth, the ECB has not been in a position to tighten considerably which will limit its arsenal to defend against future downturns."

Jonathan Dalton, IMAP Ireland



LATIN AMERICA



"After a difficult 2018 marked by a presidential election which created uncertainty, we expect that the M&A market in Colombia will be more dynamic in 2019."

Mauricio Saldarriaga, IMAP Colombia



"Uncertain political situation in Mexico with new president and left wing/populist policies. Growth in infrastructure and energy sector investment. Mexican MNCs and family offices will look to diversify by continuing to acquire abroad. Opportunities in the sell side with probably lower valuations locally."

Gilberto Escobedo, IMAP Mexico

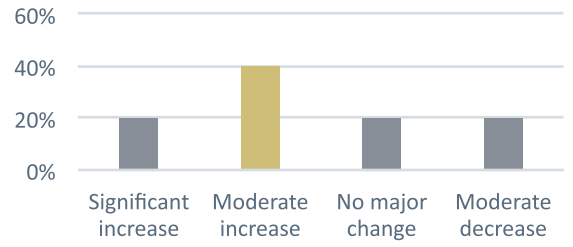


"The victory of a pro-business candidate in the last presidential elections may put the country back at the spotlight in terms of inbound M&A, including, but not limited to, foreign investors looking at opportunities created by the new administration's extensive privatization program."

Marcio Fiuza, IMAP Brazil



ASIA



"No particular risks observed. More open to inbound acquisitions - more opportunities for foreign buyers."

Tomoyuki Izumi, IMAP Japan



"Japanese companies should continue outbound M&A even if economic downturn. Companies gradually getting more comfortable to sell non-core/low profit operations, and allow foreign buyers."

Jeff Smith, IMAP Japan



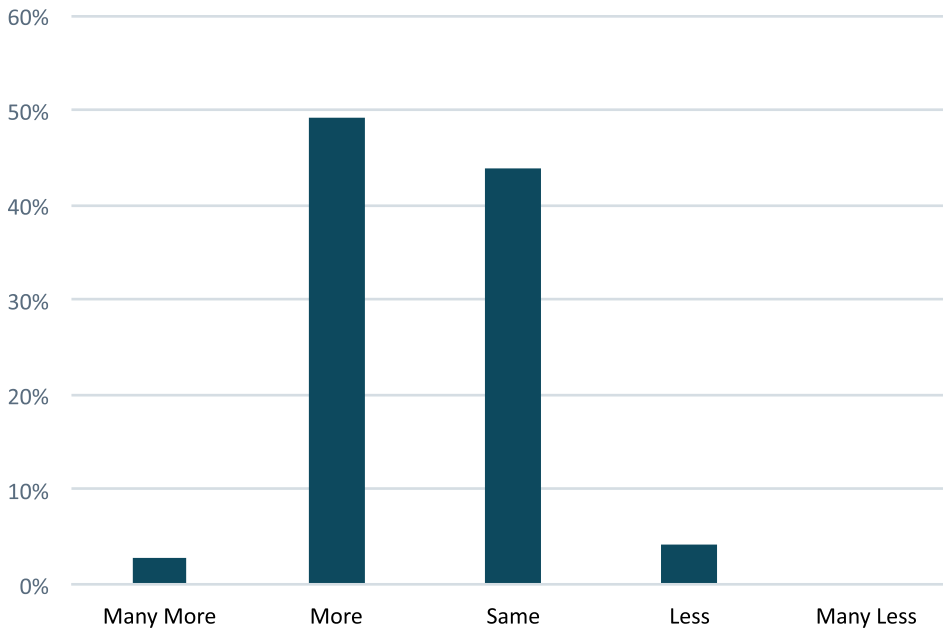
"Banking distress to drive bankruptcy, M&A PE owners to drive consolidation in Technology and Ecommerce. Pharma & healthcare to rejig portfolios. Auto competition will keep exploring to buy in Europe/US. Contract manufacturing across sectors will gain momentum and consolidation."

Ashutosh Mahesvari, IMAP India



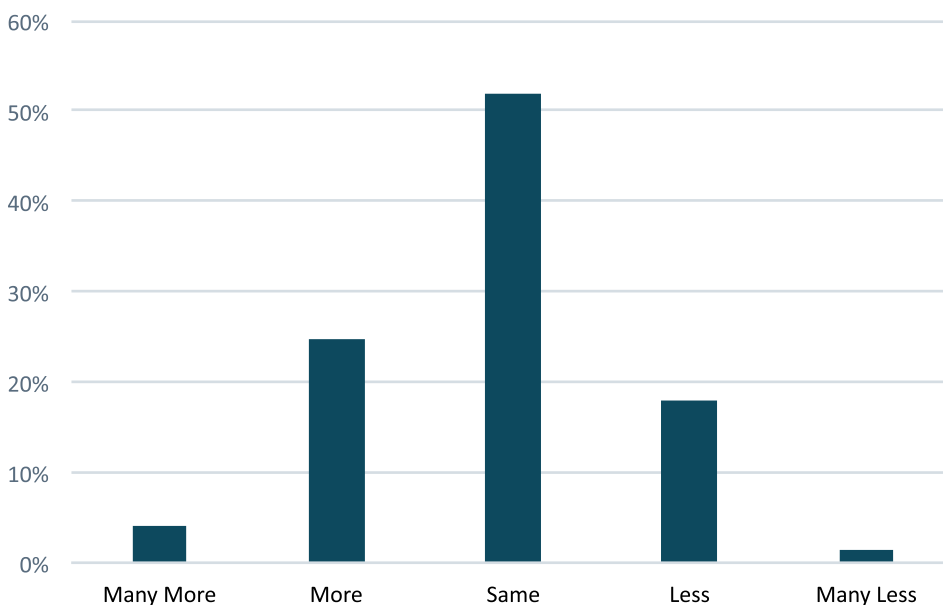
Environment and Dynamics

How many **sellers** do you expect to see in the market in 2019 compared to 2018?



Half of the advisors expect to see more active sellers in the market in 2019 compared to 2018.

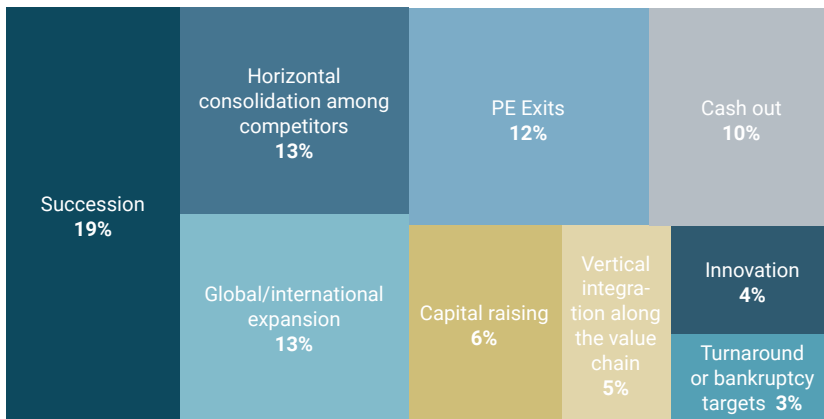
How many **buyers** do you expect to see in the market in 2019 compared to 2018?



The majority of advisors expect to see the same amount of active buyers in 2019 as in 2018.

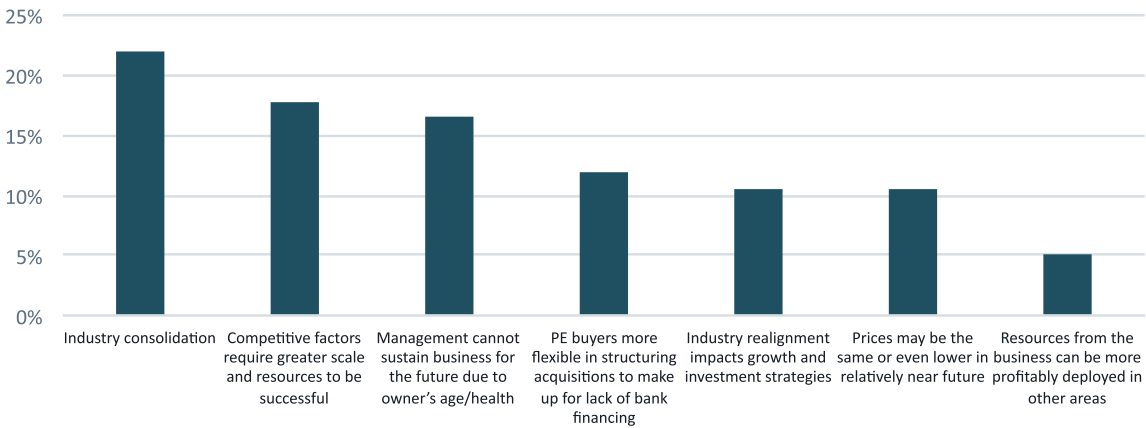
Environment and Dynamics

What do you expect to be the **most common transaction types** for 2019

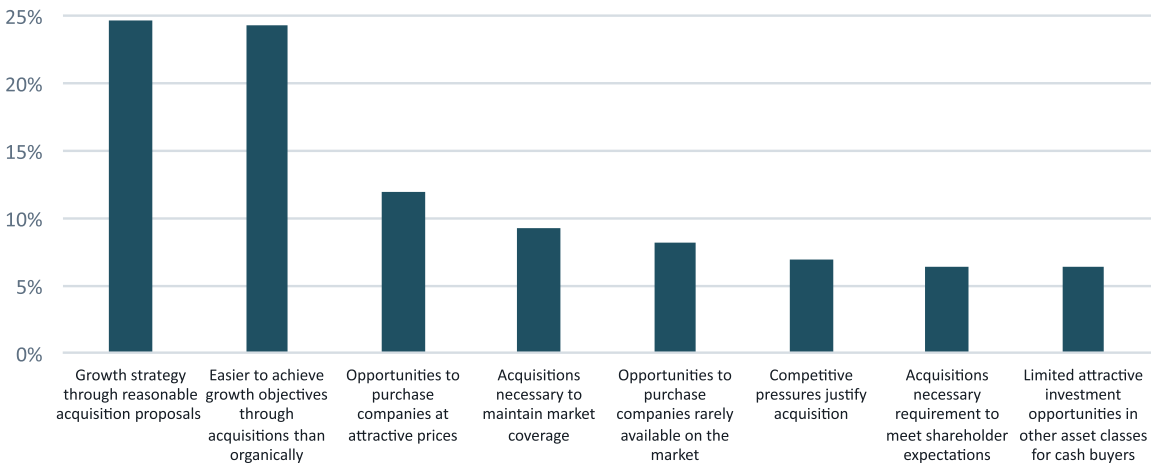


Note: Graph only includes only top 9 answers (85%)

What will be the **top 3 reasons for sellers** to sell in 2019?

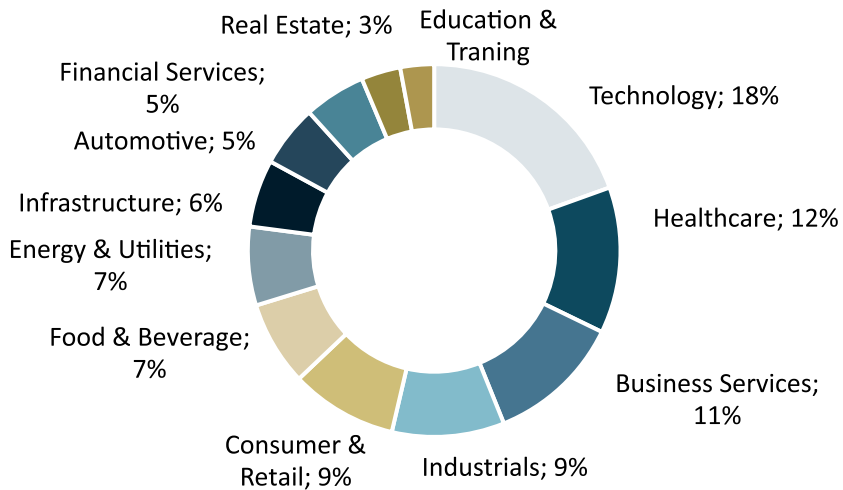


What will be the **top 3 reasons for buyers** to buy in 2019?



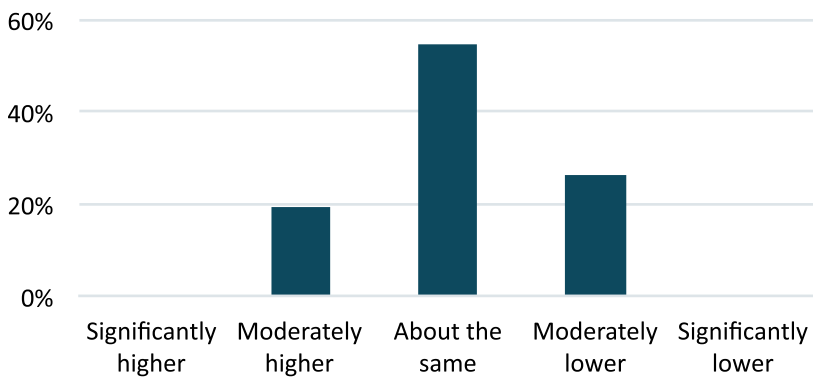
Sectors

Which **sectors will see the most increase** in M&A volume/activity in 2019?



Advisors expect the Technology, Healthcare and Business Services sectors to see the most increase in M&A volume in 2019.

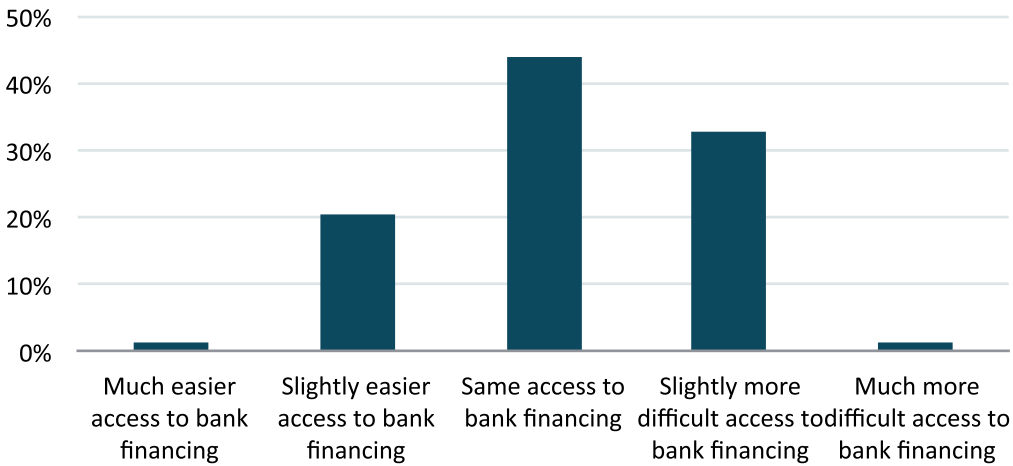
Will M&A **transaction multiples** be higher or lower in 2019 compared to 2018?



Overall, no major changes in multiples are expected in 2019.

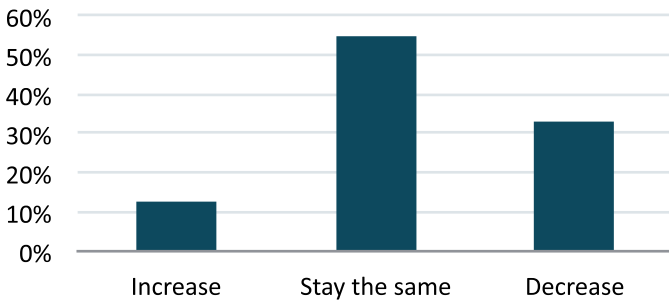
Financing and PE

What are your expectations regarding **access to bank financing** for 2019 compared to 2018?



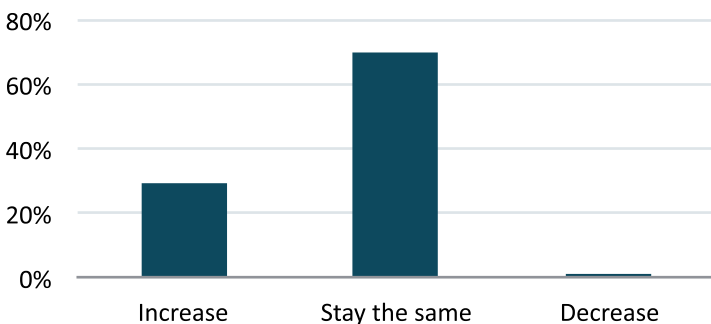
Most advisors expect access to bank financing to remain the same yet a third of advisors think access will be harder.

Do you expect **leverage ratios** to increase or decrease in 2019 compared to 2018?



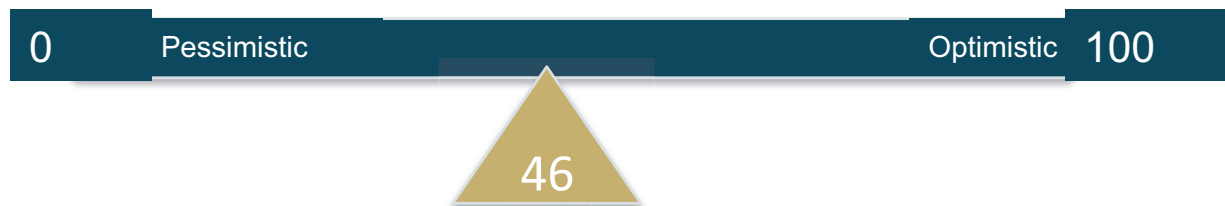
Most advisors expect leverage ratios to remain the same in 2019 as in 2018, with the same being said for their expectations for Private Equity Groups (PEGs) being present in the M&A market in 2019.

What presence do you anticipate **PEGs** to have in your M&A market in 2019?



Macro Situation

What are your feelings regarding **global economic growth** and trade in 2019?

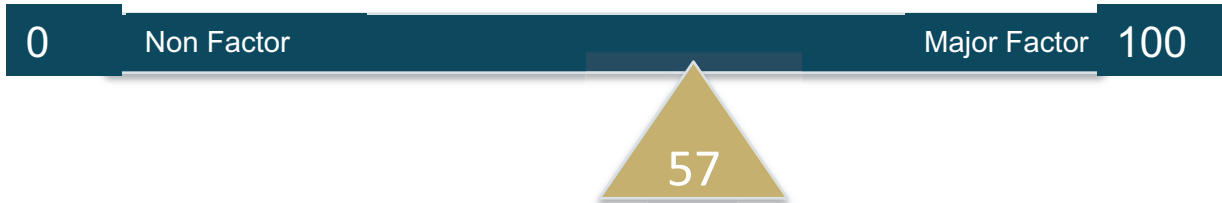


The results show that there are concerns regarding both global economic growth and trade in 2019. Some specific areas of worry are:

- USA currently strong but is there a potential slowdown looming?
- The Impact of global trade war (tariffs) and geo-political tension
- Brexit remains a big unknown
- A tighter macro situation; end of QE and higher interest rates
- The risk of recession in many countries
- Succession still a major driver of M&A
- Japan more open to inbound
- Uncertainty in Mexico. Pro-market Brazil.

Tech Acquisition and Sector Convergence

How big of a factor will **technology acquisition** be in **driving M&A activity** in 2019?



- On average, advisors indicated that technology acquisition will be a factor driving M&A activity in 2019.
- As the rate of technology-driven change increases and disruptive pressures mount across a range of sectors, companies must find ways to close innovation gaps and stay relevant.
- In many cases, the acquisition of specific technologies, innovative products, digital capabilities or business models is the most viable solution, as opposed to building these up organically.
- The pace of acquisitions of technology related targets or assets by companies in non-tech sectors is expected to pick up going forward.
- In relation to the issue of technology acquisition, advisors pointed out that there is a trend of increased convergence of the technology sector with many other sectors. Digitalization is becoming not just a standard requirement but a competitive differentiator.
- The penetration of technology in many sectors is extensive. Technology is going to be a factor across all sectors in some form or another. In retail this has already been happening for a while, and new developments in e-commerce are continuing.
- The provision of healthcare services is increasingly reliant on technological devices and applications. Technological innovation in the automotive sector is going to make self-driving cars a reality in the near future.
- Automation and data are the bedrock of Industry 4.0.

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