



Global Acquirer Trends Q4 2018

From our vantage point, the fourth quarter was a strange time. Equity investors around the globe had a brutal Q4. In the US market specifically, the S&P 500 dropped more than 14%, and some of the most-high profile tech stocks moved into bear territory.

That being said, in the mergers and acquisitions (M&A) market, transaction volume rose nearly 9% over the third quarter, with 2,762 transactions completed in Q4 2018, up from 2,542 in Q3, ensuring that 2018 ended on a positive note. Those solid Q4 numbers meant that for the year, worldwide deal volume rose nearly 2% overall, from 12,078 in 2017 to 12,309 in 2018.

North America ended the year once more as the dominant market with 6,727 deals closed in 2018, just slightly down 1% from last year's 6,801. Chinese transaction volume grew slightly at 1% over 2017 (to 641 from 629). Yet despite the strong M&A volume in both regions, the major gains made came not from the New World or the world's newest economic superpower but from Europe.

In 2018, the annual number of M&A deals in Europe rose to 4,941 in 2018 from 4,649 in 2017. Perhaps even more surprisingly, most of the gains came out of Brexit-torn United Kingdom and Ireland. M&A activity in the

region rose by nearly 27% in 2018 (1802 deals from 1414), as investors – particularly foreign investors – refused to let the political fog obscure the value they saw in the mid-market.

Much of the growth in the UK was fueled by foreign rather than local investors. The percentage of in-bound investment to total acquisitions rose in 2018, climbing to 44% from 29% in the prior year, a trend we read not as a sign of panic to get in before the drawbridge goes up but rather a recognition of the strength of the British mid-market and the temporary weakness of the pound.

Interestingly, despite all the xenophobic politics in 2018, we didn't see any sign of a nativist bias globally either. On the contrary, in 2018 cross-border deals actually grew as a percentage of the world total. Worldwide, inbound M&A comprised one third of the total deals closed (4,149) in 2018 (33% of all M&A activity), up from 3,671 inbound deals in 2017 when it was 30% of all deal activity. North America inbound M&A activity made up just a little over 20% of the total deal volume while China & India was a 55% to 45% split between inbound and domestic M&A, respectively. Only Europe saw a dramatic shift as inbound deals fell to 47% in 2018 from 59% in 2017, despite the strong increase inbound activity in the UK.



By Steve Miles
Partner, Chicago

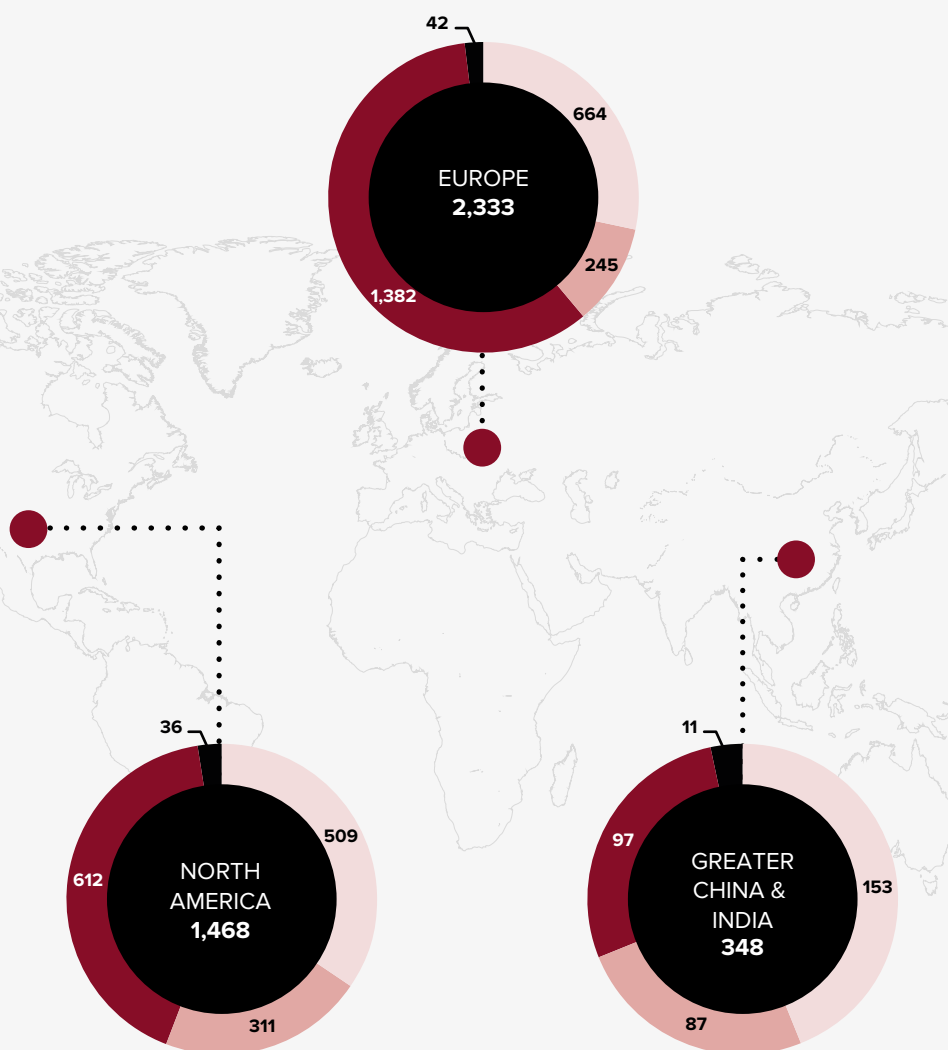
"In 2018, worldwide deal volume rose nearly 2% to 12,309 transactions, up from 12,078 in 2017, capping off another incredible year for M&A."

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WHERE ARE THE BUYERS COMING FROM?

The charts show the total number of inbound M&A in 2018 by region for each jurisdiction



KEY

AMERICAS ASIA & AUSTRALIA EUROPE MIDDLE EAST & AFRICA

	Europe	North America	Greater China & India
Inbound deals	2,333	1,468	348
Domestic deals	2,608	5,259	293
Total deals	4,941	6,727	641

The year saw no significant shift in enthusiasm for particular sectors. Business Services again led in North America (2,334) and China & India (228), followed by Media & Technology in North America (1,637) and China & India (145), followed by Industrials (1,445 in North America; 143 in China & India), just as they had in 2017.

In Europe, too, sector interests held fairly steady, with Business Services in the lead (1,685) followed by Industrials (1,158) and Media & Technology (989), a reflection, perhaps, of the strong reputation that high-end industry retains in Europe, particularly in Germany, where Industrials were the top seller.

Of course, microclimates are never completely sheltered from the prevailing winds. The same is generally true of favored asset classes. Mid-market companies have many special qualities that make them attractive acquisition targets right now, but if the economic contraction that the stock market drop intimated in December actually strikes, potential buyers could find raising money more difficult and sellers may find themselves in a much more price-sensitive environment.

This year's results, however, suggest to us that mid-market investors are not letting headlines distract them. Whether or not Prime Minister May breaks the UK out of the European Union or President Trump gets his Mexican border wall built, we expect they will continue to recognize value.



Christian Grandin
Partner
Düsseldorf
+49 211 300 495 21
grandin@livingstonepartners.de



Baoshan Bao
Partner
China – Düsseldorf
+49 211 300 495 34
baoshan@livingstonepartners.de



Jeremy Furniss
Partner
London
+44 (0)20 7484 4703
furniss@livingstonepartners.co.uk



Neil Collen
Partner
Madrid
+34 963 5245 04
collen@livingstonepartners.es



Thomas Karlsson
Partner
Stockholm
+46 8 557 701 13
karlsson@livingstonepartners.se



Steven Miles
Partner
Chicago
+1 312 670 5901
miles@livingstonepartners.com