

Global Acquirer Trends Q1 2019

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Mid-market companies don't operate in a parallel universe, but there are quarters when it feels that way. Even as world commodity and stock markets rebounded after a weak fourth quarter in 2018, mid-market mergers and acquisitions (M&A) volume stayed remarkably steady.

Global deal totals dipped slightly in Q1 2019 compared to Q4 2018, down to 2,379 from 2,762, but the fourth quarter is often stronger given the motivation to close deals by year end. When looking at deal volume from Q1 2018, however, which provides a purer year-on-year comparison, we see that deal flow has remained robust over comparable quarters, as total deal flow in Q1 2018 was 2,595.

In North America, 1,338 deals were completed during the first quarter of 2019 compared to 1,492 in the previous quarter, but here too, the year-on-year comparison suggests that not much has changed – with Q1 2018 showing 1,452 transactions.

As a percentage, the seasonal adjustment was a little sharper in the UK & Ireland (UK&I), which recorded 320 deals in Q1 2019 compared to 405 in the fourth quarter of 2018 – not particularly surprising given the level of uncertainty that continues to surround Brexit. But once again, there was less variance when benchmarked against last year's 344 deals for Q1 2018. The DACH region, meanwhile, brought home 264 deals in Q1 2019, compared to 291 in the fourth quarter of last year. The Nordics pulled in 256, down slightly from 274 in Q4 2018. Finally, the Asia Pacific region saw 118 closed deals, down slightly from Q4's 140, but virtually equivalent to last year's Q1 which closed at 139.

The only region that saw a substantive shift in volume was Iberia, where 83 deals were announced in Q1 2019, which was significantly less than Q4 2018's crop of 160 deals. Even this, however, might be construed as more of a market correction as this year's Q1 total was closer to Q1 2018's 113-deal tally than Q4's 160.

There was little movement in the balance between domestic and inbound deals either. In North America, the split stood at 77% domestic to 23% inbound in the first quarter of 2019, virtually the same as the fourth and the first quarters of 2018. UK&I domestic M&A volume stood at 62% to 38% in Q1 2019, slightly higher than the 54% to 46% split in Q4 or the 52% to 48% division in Q1 2018, but still indicating business as usual. The DACH region's domestic M&A came in at 42% vs inbound activity of 58%, roughly similar to Q4 and Q1 2018. Nor were there surprises in Asia Pacific, where domestic interest stayed around 42% as opposed to inbound interest of 58%. Iberian domestic deals also dropped slightly at 39% domestic to 61% inbound in the first quarter, compared to 43% domestic and 57% inbound in the fourth quarter and 45% domestic vs. 55% inbound in Q1 2018.

Looking at industry sector M&A activity worldwide, Business Services led the charge in total deal volume (820), followed by Industrial (557), Media & Technology (M&T) (551), Consumer (284), and Healthcare (167). The totals were roughly similar to Q4 activity, with the exception that Industrial M&A activity surpassed M&T in Q1 2019, whereas investors showed slightly more enthusiasm for M&T deals than Industrial in Q4 2018 (619 to 598) as well as in Q1 2018 (610 M&T vs. 588 Industrial).

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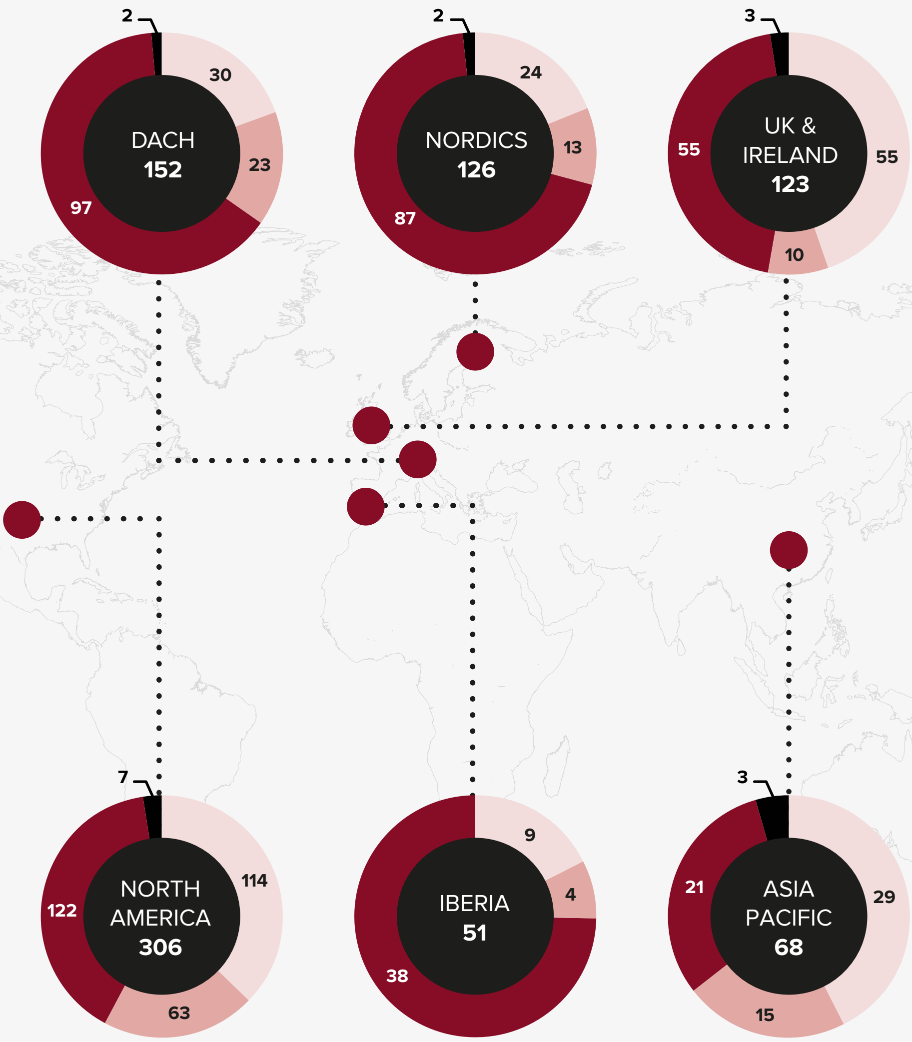
WHERE ARE THE BUYERS COMING FROM?

The charts show the total number of inbound M&A in Q1 2019 by region for each jurisdiction

KEY

AMERICAS ASIA & AUSTRALIA EUROPE MIDDLE EAST & AFRICA



	DACH	Iberia	Nordics	UK & Ireland	North America	Asia Pacific
Inbound deals	152	51	126	123	306	68
Domestic deals	112	32	130	197	1,032	50
Total deals	**264**	**83**	**256**	**320**	**1,338**	**118**

Regional variations stayed predictable as well: investors in North America liked Business Services best (461), followed by M&T (316) and Industrial (312). The UK&I saw most volume in Business Services (126 of the region's 320 total), followed by M&T (76) and Industrial (56). In the DACH region, meanwhile, investors and acquiriers favored Industrial (85), but also showed a liking for M&T (65), followed by Business Services (64). In the Asia Pacific region, Business Services deals account for the greatest volumes (by a wide margin: 62 of the 118 total deals closed in Q1 2019). Somewhat surprisingly, in view of last year's focus on building materials companies, investors in Iberia also focused on Business Services (35), followed by Consumer (19) and Industrial (15).

What's driving this overall stability in mid-market M&A? There are a few key factors:

- Strategic buyers tend to predominate. Instead of focusing on the short-term gyrations of the market, mid-market buyers are almost always looking to fulfill long-term strategic goals and see in their purchases a chance to bring strength to strength.
- Private equity investors under pressure to spend the 'wall of money' they have raised over the past few years.
- A strong global economy, access to relatively affordable capital, easing of corporate taxation in the US, and continued high valuations for businesses across Europe and the US.
- The supply and demand imbalance for transactable assets continues to prolong the current seller's market – there is more capital than quality investment opportunities.
- Mid-market companies have attributes that make them attractive acquisition targets. Unlike startups, where it's easy to be blinded by visions of unicorns, or public large caps, where one careless comment at the top can send a company's stock tumbling, mid-market companies operate in an environment where the business leaders know their customers and their company intimately and are generally playing a long game.

Of course, the business cycle hasn't been repealed, merely prolonged, and there are sure to be setbacks in the global economy that will affect the mid-market M&A activity. But over time, we believe, many mid-market companies will continue to outperform and transaction activity will reflect this.

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