WHITE & CASE

Tried and trusted: US M&A in 2017

US dealmaking remains robust, as M&A's strategic value remains as relevant as ever


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M&A's strategic importance endures

In spite of an uncertain political backdrop, 2017 was a solid year for M&A in the US. And our exclusive survey reveals the drivers that could continue the momentum through 2018

John Reiss
Global Head of M&A,
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Following two blockbuster years was never going to be easy, but US M&A more than held its own in 2017. The total value of US M&A dropped 14.3 percent to US$1.3 trillion year-on-year, but volume increased by 0.4 percent to 5,347 deals.

Putting this into clearer perspective, 2017 value was the third-highest since the economic crisis took hold in 2008. Solid economic fundamentals continue to ensure deals were done—interest rates remain low, equity values are at record highs and there is a high degree of confidence within the business community. The US economy is growing steadily and continues to create jobs.

Uncertainty around the policy direction of Trump's first year as President weighed on dealmakers' confidence in 2017, as have concerns about antitrust enforcement and increased scrutiny of inbound deals by the Committee on Foreign Investment in the United States (CFIUS). Yet passage of a pro-business tax reform bill eased dealmakers' minds. The enthusiasm is evident in our survey of US dealmakers (see page 9 for details).

The survey also shows that strong strategic reasons continue to drive M&A. Technology is an important driver, disrupting companies in every industry, changing the way business is done and blurring the lines between traditional sector boundaries. "Old economy" companies simply have to buy tech skills and platforms if they are to survive the era of digital transformation. Meanwhile, technology companies are increasingly showing a willingness to acquire businesses that help them break into new adjacent sectors that they see as important for future growth.

Activist investors remain busy, with significant influence on corporate strategies. And traditional activists increasingly behave more like private equity funds as they partner with strategic acquirers or make acquisitions on their own. Meanwhile, private equity firms have record levels of untapped investment capital available for transactions. No dealmaker can afford to ignore macro-economic uncertainty, but the fundamentals supporting an active deal environment remain in place and M&A's strategic importance remains undiminished.

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Peaks, valleys and plateaus: The US M&A landscape in 2017

HEADLINES

■ Overall M&A fell 14.3 percent by value compared to 2016, while the number of deals edged ahead by 0.4 percent ■ Outbound deal value increased 20 percent year-on-year to US$340.8 billion ■ Inbound deal value dropped 31 percent compared to 2016, yet volume increased 4.7 percent ■ US dealmakers dominated the top end of the market, with eight out of the top-ten deals between US-based bidders and targets ■ M&A deal value targeting the consumer sector jumped 139 percent year-on-year ■ TMT was the most active sector by volume, accounting for 1,213 deals, up 4.1 percent compared to 2016

In the past year, the US M&A landscape has been difficult to map. The total value of deals targeting US firms dropped 14.3 percent year-on-year to US$1.3 trillion, while volume edged ahead by 0.4 percent. Yet despite the decline in value, 2017 activity continued at a high level and outpaced all other post-crisis years from 2008 to 2013.

There were fewer large-cap deals from overseas bidders, and heightened regulatory scrutiny contributed to a 31 percent drop in year-on-year inbound value. However, while headline figures are down, US bidders have become more confident about acquiring abroad. The value of outbound M&A transactions increased 20 percent year-on-year to reach US$340.8 billion.

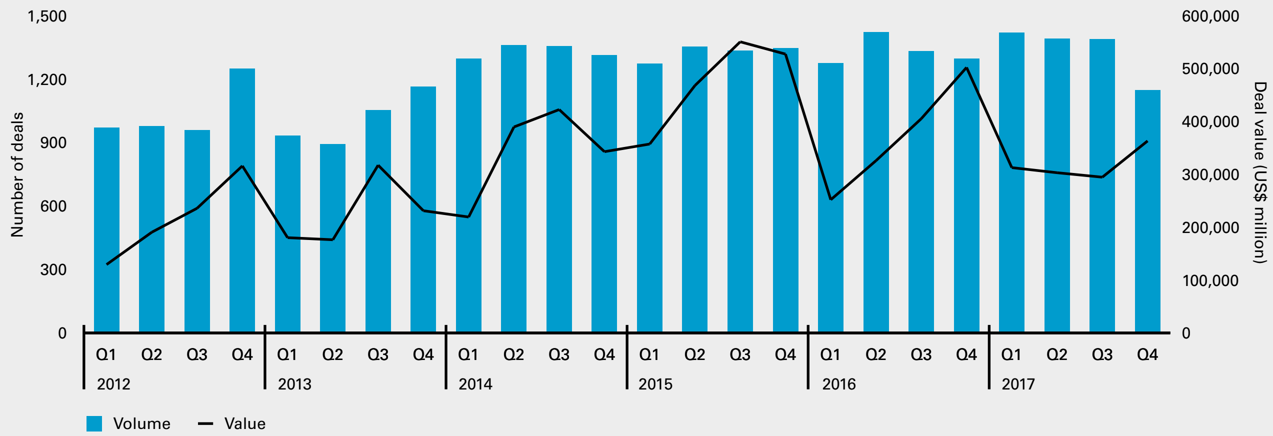
"We have had a great year," says John Reiss, Global Head of M&A at White & Case. "In particular, the M&A market had an uptick in November and December, which bodes well for 2018. Across all sectors, there continues to be a desire for scale, a desire to broaden brands and a desire to compete with new entrants disrupting industries. And M&A remains one of the best ways to achieve those aims."

Greg Pryor, Head of Americas M&A at White & Case, agrees: "In 2017 we saw high levels of activity, demonstrating the continuing importance of strategic M&A for both companies and investors alike. The fundamentals for M&A remain in place, and we expect a similarly strong 2018".

139%

Increase in consumer deal value year-on-year

US M&A 2012 – 2017



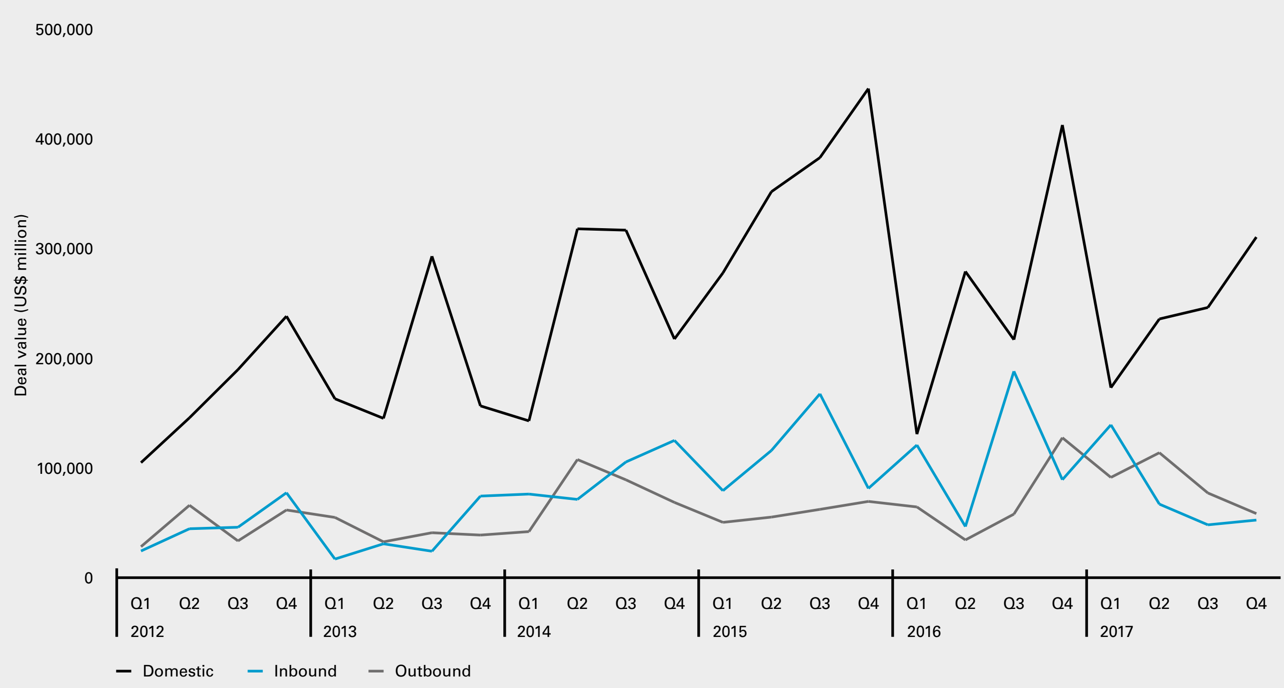
Domestic bliss

When it comes to the top end of the market, US dealmakers are choosing to invest at home. Eight out of the top-ten US deals of the year were domestic. The Walt Disney Company's headline-grabbing US$68.4 billion deal for certain assets of 21st Century Fox marked the highest valued US transaction of the year. The massive Disney/Fox deal followed closely on the heels of CVS Health Corporation's acquisition of Aetna, Inc. These two megadeals, together with Broadcom's proposal to acquire Qualcomm in a huge US$130 billion transaction, highlighted this trend and suggest that 2018 domestic dealmaking

Top 10 M&A deals, 2017

Announced date	Completion date	Target company	Target-dominant sector	Bidder company	Bidder-dominant country	Deal value (US$ million)
14/12/2017		21st Century Fox, Inc.	Media	The Walt Disney Company	USA	68,422
03/12/2017		Aetna Inc.	Financial Services	CVS Health Corporation	USA	67,823
17/01/2017	25/07/2017	Reynolds American Inc. (57.83 percent stake)	Consumer: Other	British American Tobacco Plc	UK	60,567
04/09/2017		Rockwell Collins, Inc.	Industrial products and services	United Technologies Corporation	USA	29,948
23/04/2017	29/12/2017	C.R. Bard, Inc.	Medical	Becton, Dickinson and Company	USA	23,609
21/08/2017		Oncor Electric Delivery, majority owned by Energy Future Holdings Corporation	Utilities (other)	Sempra Energy	USA	18,800
10/02/2017	15/06/2017	Mead Johnson & Company	Consumer: Foods	Reckitt Benckiser Group Plc	UK	17,835
15/12/2017		MPLX LP (40.32 percent stake)	Energy	Marathon Petroleum Corporation	USA	17,279
01/02/2017	30/06/2017	ONEOK Partners, L.P. (60 percent stake)	Energy	ONEOK, Inc.	USA	17,118
18/08/2017		Calpine Corporation	Energy	Calpine Consortium	USA	17,023

US M&A: Domestic, inbound and outbound value



could be quite active. Despite this dominance, total domestic deal value did not beat 2016's figure. A total of 4,324 deals worth US$965.4 billion marked a 7.1 percent decrease in value compared to 2016, with 0.6 percent fewer deals.

Expanding horizons

US dealmakers' confidence in overseas investment was demonstrated in record-breaking deal figures. There was a total of US$340.8 billion spent across 1,330 deals involving foreign targets, marking a 20 percent value increase compared to 2016.

This increase was underpinned by positive economic indicators both at home and overseas. In the third quarter of 2017, GDP grew by 3.3 percent, according to the Commerce Department. This was the fastest rise since Q3 2014. A record-breaking stock market continues to support buyer confidence and attractive valuations for vendors. Overseas, the eurozone economy surpassed expectations in 2017, seeing a real GDP growth of 2.2 percent.

20%

Outbound deal value increase compared to 2016

12.3%

Increase in buyout value year-on-year

"Financial markets remain liquid, with historically low interest rates continuing to encourage acquisition activity," says White & Case partner Bill Choe.

Deal activity was particularly prevalent in Western Europe, where US companies saw renewed growth, greater political stability and decent valuations. Deal value rose year-on-year by 8.5 percent to reach its highest annual deal value on record.

Private equity performs

Record levels of dry powder helped to drive valuations higher and lift buyout activity to a post-crisis high in 2017, both by volume and value. According to research group Preqin, dry powder levels exceeded US$1 trillion in 2017, up from US$838 billion in 2016.

This prompted intense competition for the most-prized assets, particularly because PE firms had the funds to compete with their corporate rivals. There were 1,176 buyouts worth US$190.8 billion in 2017, an increase of 12.3 percent by value and 10.4 percent by volume compared to 2016.

"Valuations have continued to rise, and we've seen private equity funds stretching to pay higher multiples and bigger purchase prices for the companies they acquire," says White & Case partner Carolyn Vardi.

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31%

Yearly decrease in inbound deal value

Inbound investors press pause

The optimism surrounding the impact of Trump's business-friendly tax reforms and the confidence gained from stock market highs are counterbalanced by concern about the impact of antitrust and CFIUS interventions on big-ticket transactions. "One of the big uncertainties right now is where the government is going in terms of antitrust enforcement," says Reiss.

These factors acted as deterrents for inbound M&A activity during 2017. Deal value from overseas bidders fell 31 percent year-on-year to US$306.9 billion, as foreign buyers adopted a more cautious approach to US deals following the blocking of some high-profile transactions.

One such lapsed deal was the US$1.2 billion bid for Lattice Semiconductor Corporation by China-backed Canyon Bridge Capital Partners, which failed to obtain clearance from CFIUS. Chinese smartphone manufacturer TCL Industries' bid for the mobile hotspot business of Inseego Corporation and the proposed sale of ExL Petroleum Management have also been called off due to CFIUS concerns, giving overseas investors reason for pause. However, the number of inbound mid-market deals into the US actually increased by 2.8 percent.

Chinese bidders take a hit

The interventions of CFIUS and the Trump Administration's protectionist rhetoric appear to have had a particular impact on Chinese inbound activity. Deal value from Chinese firms investing in US assets plummeted 81 percent from a record US$56.7 billion to US$10.7 billion year-on-year, while volume dropped by 15 percent. China was the third-largest inbound M&A investor into the US in 2016, but ranked only seventh during 2017.

"China has been an important player in US M&A in recent years, but multiple overlapping factors both in China and in the US have had an impact," Reiss says. "There are limitations on Chinese outbound activity because of regulation and overleverage in Chinese financial institutions and large corporates. On the US side, regulation by Trump and CFIUS further limit activity."

Consumer cravings

Despite challenges to M&A at a macro level, strong strategic rationales for transactions have meant that high-profile deals continue to close. Within the consumer space, M&A has enabled companies to build scale, reduce costs through synergies and strengthen positions in new markets. The trend was demonstrated through high-profile deals such as British American Tobacco's US$60.6 billion purchase of a majority stake in Reynolds American and Reckitt Benckiser's US$17.8 billion takeover of Mead Johnson & Company. A total of US$167.8 billion spent on US consumer assets was up 139 percent when compared to 2016's value.

Disruptive influence

The disruptive impact of technology across all sectors continues to spark deal activity. A flurry of deals made TMT the most targeted sector in terms of volume, with a total of 1,213 transactions, up 4.1 percent compared to 2016.

Competition from new market entrants is pushing some big companies to acquire established players in markets where they see opportunities to expand. Amazon's US$13.5 billion purchase of grocer Whole Foods, for example, allowed

Trump tax reforms set to boost M&A

The recently enacted tax reform on the whole should support M&A, but not all the measures are deal-friendly.

President Trump scored his first legislative victory, as the Republican tax bill became law at the end of 2017, following a relatively smooth passage through Congress. This should be good news for dealmakers. The package includes two major reforms that are widely expected to have a positive impact on deal activity, namely a cut in the headline corporate tax rate and lower tax rates on repatriated earnings.

Bringing assets home

Under the new tax plan, earnings and profits held overseas are subject to a substantially reduced one-time tax of 8 percent on illiquid assets and 15.5 percent on cash and cash equivalents, after which such amounts will be brought back to the US without additional tax. With Capital Economics estimating that US companies are sitting on US$2.6 trillion-worth of overseas cash, bringing this capital back home could give domestic M&A a big boost. "The so-called tax holiday on repatriation is certainly going to bring more cash into the system. I expect that a substantial portion of it will be used to benefit shareholders through buybacks and dividends, but it is also likely that it will increase deal activity," says Andrew Kreisberg, partner at White & Case.

Expenses incentives

Changes to the rules allowing for the immediate expensing of capital assets could provide a further lift, particularly for companies in capital-intensive industries such as manufacturing. Under the bill, the immediate expensing of capital assets would generally apply to acquisitions of new or used property prior to January 1 2023, with the benefit being phased out after that. "Subject to certain exceptions for real estate and public utilities, if you structure a transaction as an asset deal, you will be eligible for a full and immediate depreciation deduction. This could be a significant incentive to do a deal," Kreisberg says.

Clouds on the horizon

The Trump package, however, isn't all deal-friendly. The new legislation significantly limits interest deductions, which could impact deal economics. And the lower corporate tax rate will not necessarily free up large amounts of capital in the way that may be expected. "The reduction in the corporate tax rate is going to be balanced out by the elimination of certain tax benefits," Kreisberg explains. "Overall, I'm not sure how much a lower headline rate will impact M&A."

the tech company to expand into the adjacent sector of grocery retailing. Meanwhile, pharmacy chain CVS's US$67.8 billion acquisition of insurance firm Aetna is widely believed to be in reaction to Amazon's plans to move into the pharmacy market.

A mixed outlook

The US Federal Reserve raised interest rates by 0.25 percent in December, the third rate rise in 2017. With an estimated GDP growth of 2.5 percent in 2017 and 2018, this increase reflects strong fundamentals underscoring US dealmaking. While this may cause financing to be slightly more expensive, elevated stock markets and robust domestic growth will ensure that conditions remain favorable for deals. "There is still confidence, optimism and capital available, so it is going to stay busy. The key factor is the stock market. Until the stock market falls back significantly for a long period, we are likely to continue observing substantial M&A activity," Reiss says.

Yet after two years of high-profile megadeals across an array of industries, there are reasons for caution in 2018. The full impact on tax reforms, including their impact on highly leveraged transactions, is yet to be fully understood. Heightened geopolitical tensions could serve as a brake on activity. And continuing uncertainty on the regulatory front will negatively impact dealmaking. Additionally, the administration's plans to invest in infrastructure have also yet to materialize. "There are many positives out there, but the picture is mixed," says Pryor.

The M&A gatekeeper: CFIUS continued to scrutinize inbound deals

In 2017, the number of CFIUS applications hit a new high in recent CFIUS history

2017 saw a fall in inbound M&A value into the US. One explanation has been the push-back from the Committee on Foreign Investment in the United States (CFIUS). The inter-agency body, tasked with reviewing the impact of deals on national security, took a tougher line on some foreign deals under the Trump Administration. For instance, Chinese investments into the semiconductor space as well as other sensitive technologies drew heavy attention and there were increased reports of abandoned transactions because of "unresolved national security concerns" identified by CFIUS.

Hitting a wall

Transactions that failed to clear in 2017 include the US$1.2 billion bid for Lattice Semiconductor Corporation by China-backed Canyon Bridge Capital Partners, which was blocked by President Trump on advice from CFIUS. Chinese smartphone manufacturer TCL Industries' bid for the mobile hotspot business of Inseego Corporation and the proposed sale of Wolfspeed to Germany's Infineon were among several transactions that were called off due to CFIUS concerns.

Volume overload

The number of filings received by CFIUS was the highest it has been since 1990. "The number of formal filings in 2017 was well above 230, in fact somewhere between 235 and 245, which is quite a remarkable number for CFIUS," says Farhad Jalinous, partner at White & Case. In addition to notified transactions, CFIUS continued to proactively look for "non-notified transactions," deals of interest to CFIUS that were not voluntarily submitted for review by the parties involved. This increased the number of reviews by capturing transactions where the parties were "invited" by CFIUS to make a filing.

The Trump factor

Although CFIUS has become more aggressive under the Trump Administration, the statute and regulations that govern its work did not change in 2017. Two bills were introduced in Congress with strong bipartisan support to overhaul the existing statute, and there is speculation in DC that the new legislation will be finalized in 2018.

Although the CFIUS process is focused on national security, CFIUS is part of the Executive Branch. "The ultimate authority on allowing or disallowing a transaction rests with the President, so the President and the Administration do play a very critical role in how the process is conducted," Jalinous says.

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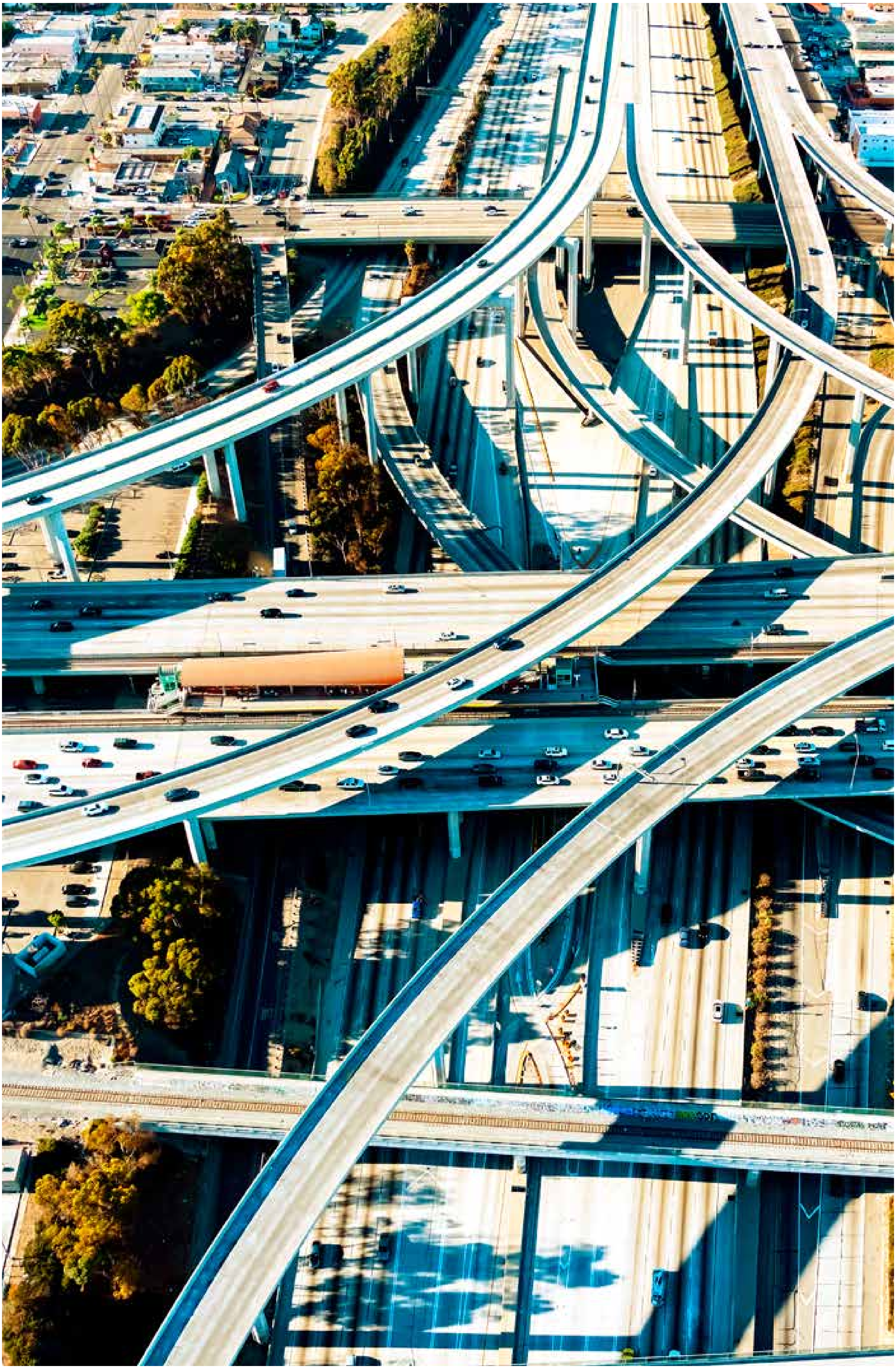


US M&A survey: Drivers, dilemmas and destinations

Our exclusive survey identifies impacts from tax reforms and the repatriation of offshore capital as key areas to watch in 2018. Digital innovation remains a major driver for transactions, while effective due diligence poses a challenge

HEADLINES

■ Three-quarters of respondents say a reduction in federal corporation tax will increase their appetite for M&A ■ Almost half (46 percent) say that reduced tax on all non-US earnings brought back into the country will increase their appetite for deals ■ 70 percent of survey respondents say that during the last 24 months, their company had announced a deal that subsequently lapsed before completion ■ Just over half of the participants (51 percent) estimate that M&A improved their underlying earnings per share (EPS) by between 3 and 4 percent ■ A quarter of respondents identify the acquisition of IP/technology as the main strategic rationale for deals in the year ahead

In H2 2017, White & Case, in partnership with *Mergermarket*, surveyed 200 senior-level executives about their experiences and outlook on M&A in the US. The aim of the survey was to analyze dealmaker sentiment within the industry and pinpoint issues and challenges at the forefront of dealmakers' minds in 2018. The key findings from our survey, below, are an almost equal mix of the encouraging, the not-so-encouraging and the unknown.

DEAL DRIVERS

1. Tax cuts set to boost M&A

The "Tax Cuts and Jobs Act" passed through both the Senate and the House in December 2017. The bill, which cuts the corporate tax rate from 35 percent to 21 percent and lowers tax on repatriation of overseas cash, has been well received by US businesses and looks supportive of M&A activity.

The proposed tax cut was identified as a key area to watch in our survey, with dealmakers optimistic about the final outcome of Trump's reforms. Three-quarters of those polled say a significant reduction in federal corporation tax would increase their appetite for M&A.

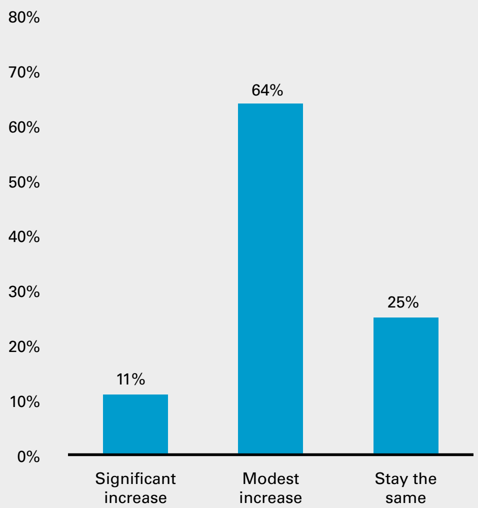
2. Tax incentives to repatriate earnings set to drive M&A

Proposals encouraging companies to repatriate offshore earnings back into the US were also well received by survey respondents. Almost half say that the introduction of provisions, such as those in the new tax law, would increase their company's appetite for deals. Such incentives would result in significant tax savings, which can be further utilized for expansion and returning cash to shareholders.

3. Technology is a major strategic deal driver

For companies that are planning to undertake M&A during the next 12 months, the acquisition of IP and/or technology is expected to be a key driver, with a quarter of

What would the effect of introducing a reduction of the top rate of federal corporation tax to 15 percent be on your company's appetite for M&A?



respondents identifying this as the main strategic rationale for deals in the year ahead.

As a result of the rapid advances in technological innovation seen in recent years, dealmakers are on the hunt for bolt-on acquisitions that will enable them to stay ahead in a rapidly evolving business climate.

The attractiveness of IP/ technology assets is not limited to one sector, and convergence between industries remains an important driver of activity. A 2017 study from research group CB Insights found that tech investments by non-tech companies were on course to surpass tech companies for the first time. Just over half (51 percent) of Fortune 500 investments into private tech companies came from non-tech corporations in the first half of 2017, up from 29 percent in 2014.

4. M&A remains value-accretive

While 2017 has not matched the heights of the two preceding blockbuster years, the long-term strategic value of M&A transactions remains unquestioned. According to our survey, more than half of the participants estimate that M&A improved their underlying earnings per share (EPS) by between 3 and 4 percent over the past three years. Furthermore, almost three-quarters (72 percent) of respondents say that their EPS was either on target or above target.

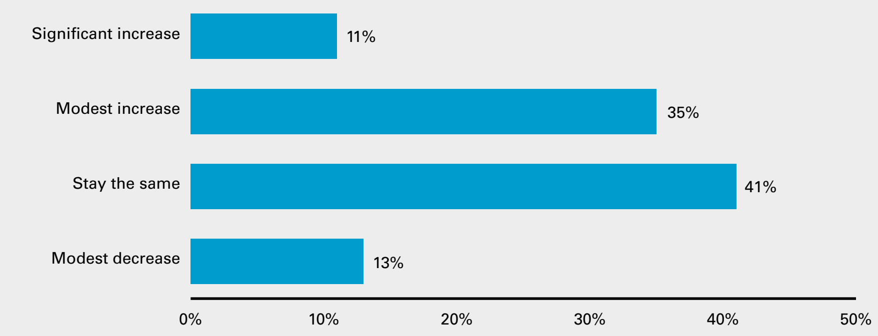
DEAL DILEMMAS

1. The China question remains

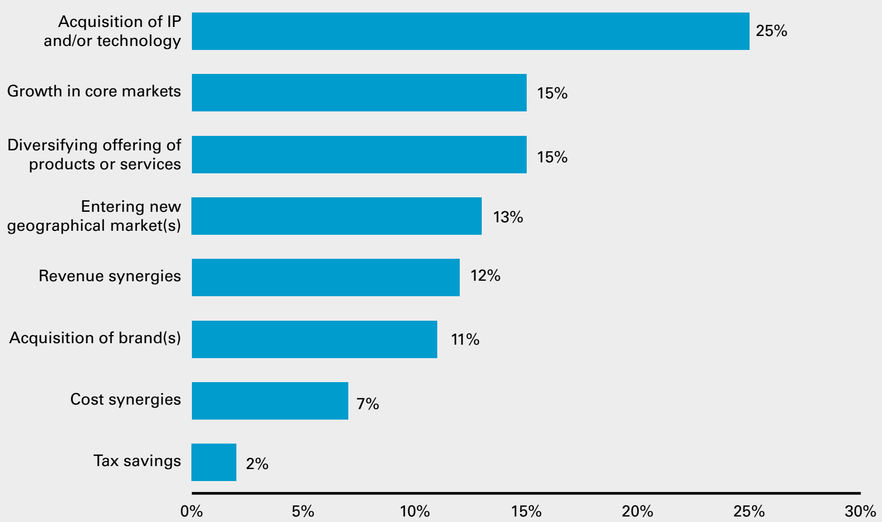
Respondents were more divided on the impact of the Administration's more protectionist policy aims. Many respondents were concerned about the disruption to long-term trading and economic ties. "The possibility of turbulence in our financial structure is an issue," says the strategy director of a TMT firm. "We're in our comfort zone right now. Any change could adversely affect us."

During his presidential campaign, Donald Trump called for a 45 percent tariff on imported goods from China. However, at the time of writing, such a measure has yet to be implemented.

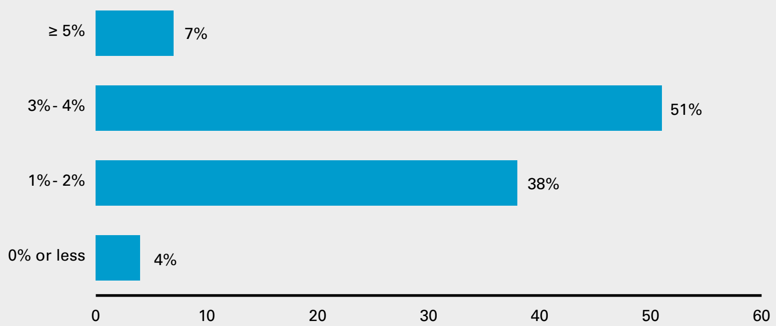
What would the effect of introducing a one-off tax of 10 percent on all repatriated non-US earnings be on your company's appetite for M&A?



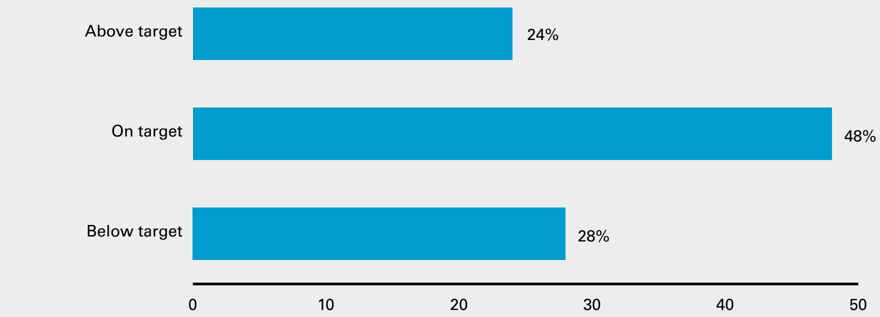
What are the key drivers for your M&A activity over the next 12 months? (Please select the most important)



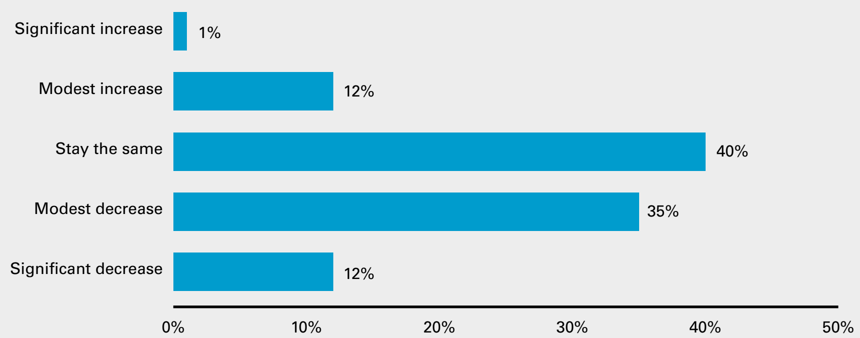
How much has M&A driven average annual growth in your company over the previous three years as measured by underlying earnings per share, in your estimation?



Based on how much M&A has driven average annual growth in your company over the previous three years as measured by underlying earnings per share, was this…?



What would be the effect of the imposition of tariffs on imports from China to the US on your company's appetite for M&A?



An imposition of tariffs on Chinese imports would decrease M&A appetite for 47 percent of respondents, with 12 percent saying it would dent their interest in dealmaking significantly. On the other hand, more than half of respondents say that the imposition of tariffs on goods from China would have either no impact on their M&A plans or boost their appetite for deals.

2. The ones that got away

One contributing factor to the fall in overall deal activity in 2017 is the number of deals that have failed to complete. A surprisingly high number—70 percent—of survey respondents say that during the last 24 months, their company had announced a deal that subsequently lapsed before completion.

The perceived increase in lapsed transactions can be attributed to a number of factors. The fact that overall deal value is down suggests that vendors and buyers are less exuberant and thinking more closely about pricing and the strategic rationales for transactions.

Regulatory intervention has also put transactions on ice. China-backed Canyon Bridge Capital Partner's US$1.2 billion bid for Lattice Semiconductor Corporation was blocked by President Trump

on CFIUS's recommendation. Meanwhile, the Federal Trade Commission has filed a complaint aimed at stopping chemical producer Tronox from acquiring Cristal's titanium dioxide business. The mega-merger between AT&T and Time Warner is also being challenged in the courts and has yet to close.

The majority of survey respondents cite issues uncovered in due diligence as the predominant reason for their company's most recent withdrawn or lapsed deal. Some 78 percent say problems uncovered in due diligence were the reason for lapsed deals, with 65 percent selecting antitrust regulatory issues as the reason for announced deals ultimately failing.

3. NAFTA hangs in the balance
Withdrawing from the North American Free Trade Agreement (NAFTA) would have a negative impact on US dealmaking, according to our survey.

78%

Respondents who cite problems uncovered in due diligence as the reason for lapsed deals

53%

Respondents who say NAFTA withdrawal will have a negative effect on M&A

Over half of respondents indicate a withdrawal from NAFTA would dampen appetite for M&A, including 8 percent who say it would prompt a significant decrease. "Withdrawing from NAFTA will have an effect on trade relations with neighboring countries, and this will impact deals that are in the pipeline," says a corporate development director at a TMT company.

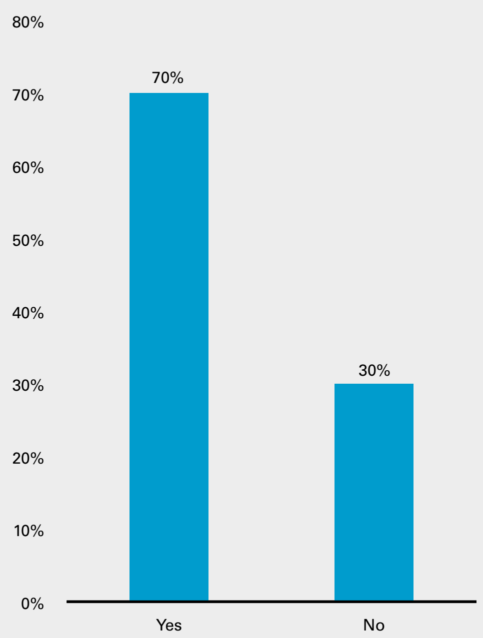
With little progress achieved in the first five rounds of negotiations held with Mexico and Canada—and just two more in the pipeline—concern is mounting surrounding the future of trading links between the three countries. "We have seen no evidence that Canada or Mexico are willing to seriously engage on provisions that will lead to a rebalanced agreement," US Trade Representative Robert Lighthizer said in a statement.

DEAL DESTINATIONS

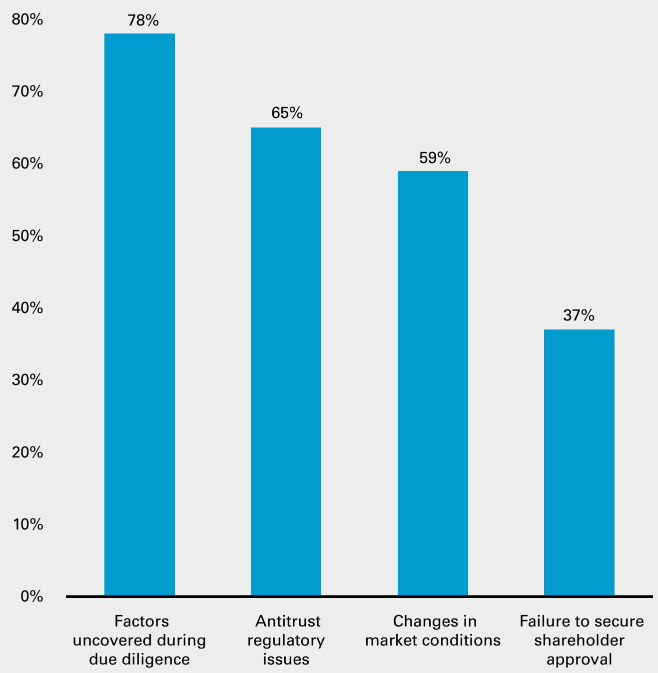
The top-three US M&A hotspots
Despite concerns surrounding upcoming regulation and political uncertainty, just over two-thirds (67 percent) of respondents say the US will be the most attractive country for acquisitions during the next 12 months, with the next closest candidates—the UK, India and China—registering less than 10 percent each.

Half of those polled say positive economic indicators make their country of choice the most attractive market, while 23 percent cite attractive company valuations and 19 percent choose reliable infrastructure. Strong economic fundamentals within the US explain this attraction. An estimated GDP growth of 2.5 percent in 2017 and 2018 and soaring stock markets have produced a favorable environment for deals.

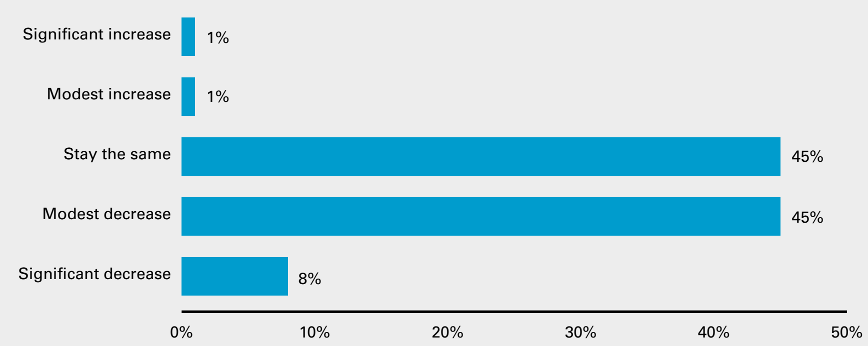
In the past two years, has a merger or acquisition that your company has announced subsequently been withdrawn or lapsed before completing?



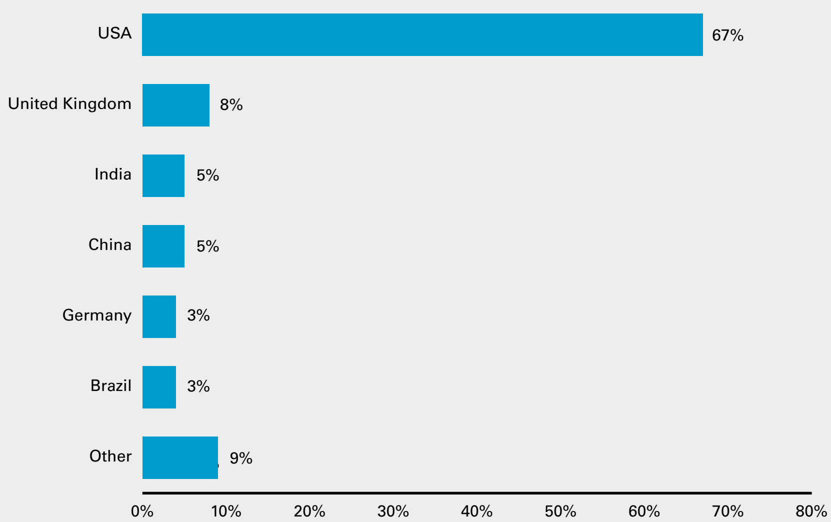
Why did your company's most recent withdrawn or lapsed deal fail to complete? (Please select all that apply)



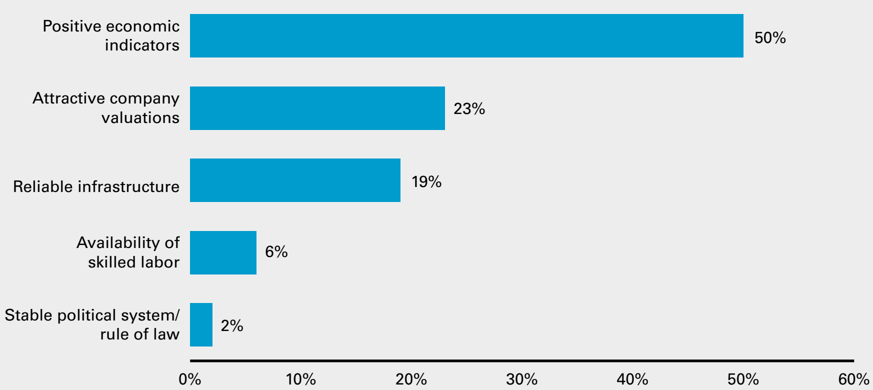
What would be the effect of the US withdrawing from NAFTA be on your company's appetite for M&A?



Which country is the most attractive to acquire companies from over the next 12 months?



Why is this country most attractive? (Please select the most important)



Despite uncertainty surrounding Brexit trade talks, the UK remains a popular choice for US investors, drawn to attractive valuations and high-quality assets. The US$12 billion acquisition of UK firm Worldpay by US payments processor Vantiv highlights this trend.

Meanwhile, India is emerging as an increasingly attractive deal destination. The country offers strong growth potential to investors. A stable government and an openness to international investment are also draws. A stable government, led by President Narendra Modi, has allowed the economy to prosper and has initiated a wave of investment from international firms.

"Despite concerns surrounding upcoming regulation and political uncertainty, just over two-thirds (67 percent) of respondents say the US will be the most attractive country for acquisitions during the next 12 months.

Private equity activity reaches a peak

Record levels of dry powder and intense competition for deals caused buyout volume to reach a record high in 2017, while exit activity is encouraged by high valuations

Amid a mixed M&A landscape, private equity (PE) was a trustworthy asset class for investors seeking strong returns. This is reflected in the level of buyout activity seen in 2017, with value reaching a post-crisis high, while volume recorded its highest annual total on record. There were 1,176 buyout deals worth US$190.8 billion announced over the year, a 12.3 percent increase in value and a 10.5 percent increase in volume compared to 2016.

Buyout firms seem to be focusing on high-quality assets, preferring to write larger checks for top performers rather than focusing on marginal deals. This resulted in some headline-grabbing buyouts during 2017. A consortium including Energy Capital Partners paid US$17 billion for energy group Calpine in the largest transaction of the year. And Abu Dhabi Investment Authority (ADIA) and GIC acquired Pharmaceutical Product Development, a contract research provider to the pharma industry, for US$9 billion.

12.3%

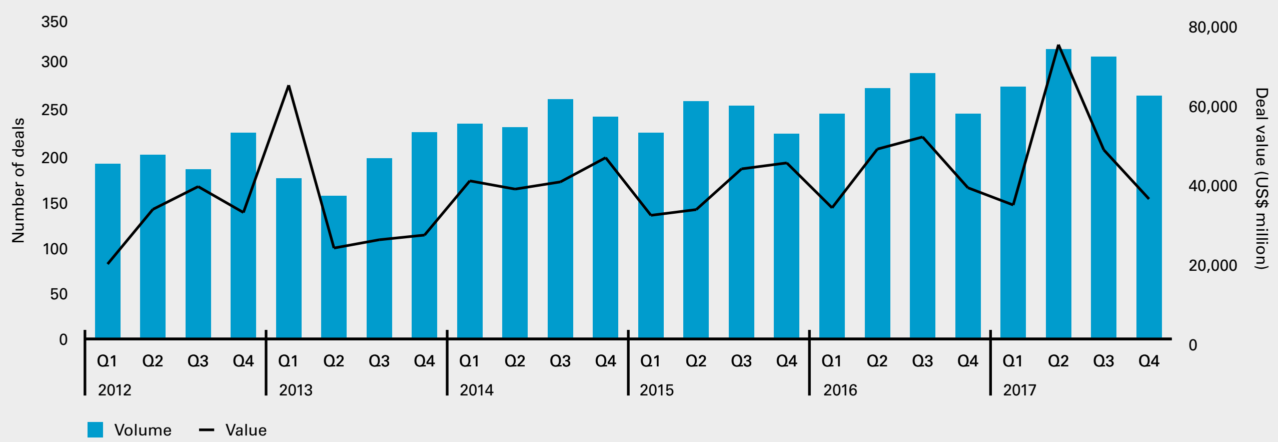
Increase in buyout value year-on-year

Competition heats up

"It is very, very competitive right now, almost to a point where I think people are getting a little uncomfortable," says White & Case partner Oliver Brahmst. "It seems that it is now much easier to raise money than actually invest it." A

"It is very, very competitive right now, almost to a point where I think people are getting a little uncomfortable. It seems that it is now much easier to raise money than actually invest it.

Private equity buyouts 2012 – 2017



record level of dry powder, which according to Preqin reached an all-time high of US$954 billion as of September 2017, prompted intense competition for transactions and drove deal values up significantly.

Healthcare leads the pack

The healthcare sector saw significant buyout activity in 2017. "There's definitely been a focus on healthcare in PE," says Carolyn Vardi, partner at White & Case. "Within the industry, financial investors are becoming more sophisticated in order to understand how to comply with applicable regulations." ADIA and GIC's US$9 billion agreement to acquire Pharmaceutical Product Development, along with UK-based Pamplona Capital Management's US$4.9 billion purchase of life sciences consulting firm PARAXEL International, highlight the value financial investors place on the right targets.

A seller's market

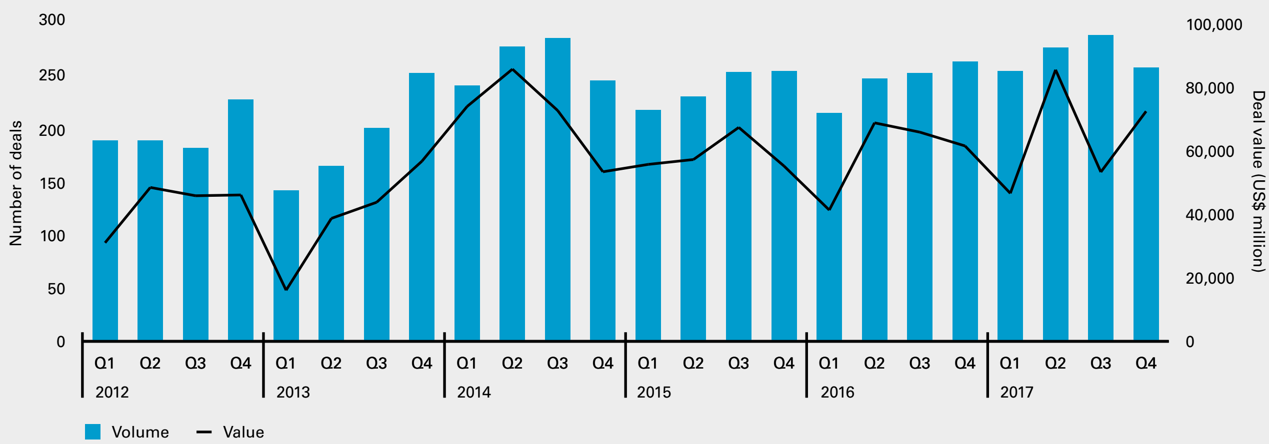
Exit activity similarly experienced a strong year, with 1,083 transactions valued at US$258.3 billion—an increase of 10 percent in volume and 8.5 percent in value year-on-year. The large sums that PE firms have to invest has ensured that the market remains favorable to sellers.

"The overall dynamic where PE funds have significant amounts of capital to deploy means sellers will continue to push for higher multiples and equity backstops to purchase-price payment, leading to the continued tension between equity backstops and the reverse-termination fees that PE fund purchasers favor," Vardi says. Against this backdrop of sky-high valuations, meeting sellers' increasing demands may present a challenge to investors in 2018.

8.5%

Increase in exit value compared to 2016

Private equity exits 2012 – 2017



Sector Watch: Consumer and financial services power into 2018

HEADLINES

■ Consumer deal value jumped 139 percent year-on-year to reach US$167.8 billion ■ Energy, mining and utilities was the top performing sector by value ■ Financial services experienced a resurgence in activity, with US$147.5 billion spent over 456 deals, increasing 82 percent by value year-on-year ■ The TMT sector generated the highest number of deals across all sectors, with a record 1,213 transactions announced

Consumer M&A delivers impressive growth

Consumer was the standout industry for US M&A in 2017, with a combination of consolidation, geographic expansion and technological disruption spurring the sector on to a banner year. Megadeals such as British American Tobacco's US$60.7 billion acquisition of a majority stake in Reynolds American boosted overall figures by a remarkable 139 percent to reach US$167.8 billion.

Energy leads but falls behind 2016

With US$260.2 billion spent across 442 deals, the energy sector contributed the highest total to overall US M&A in 2017. However, a challenging investment climate resulted in the sector experiencing a 20.5 percent drop in value compared to 2016. Despite this decrease, oil & gas and electrical power delivered some sizable deals during the year. The recovering oil price signals a changing climate for deals in 2018, and the sector remains one to watch.

82%

Financial services increase in deal value year-on-year

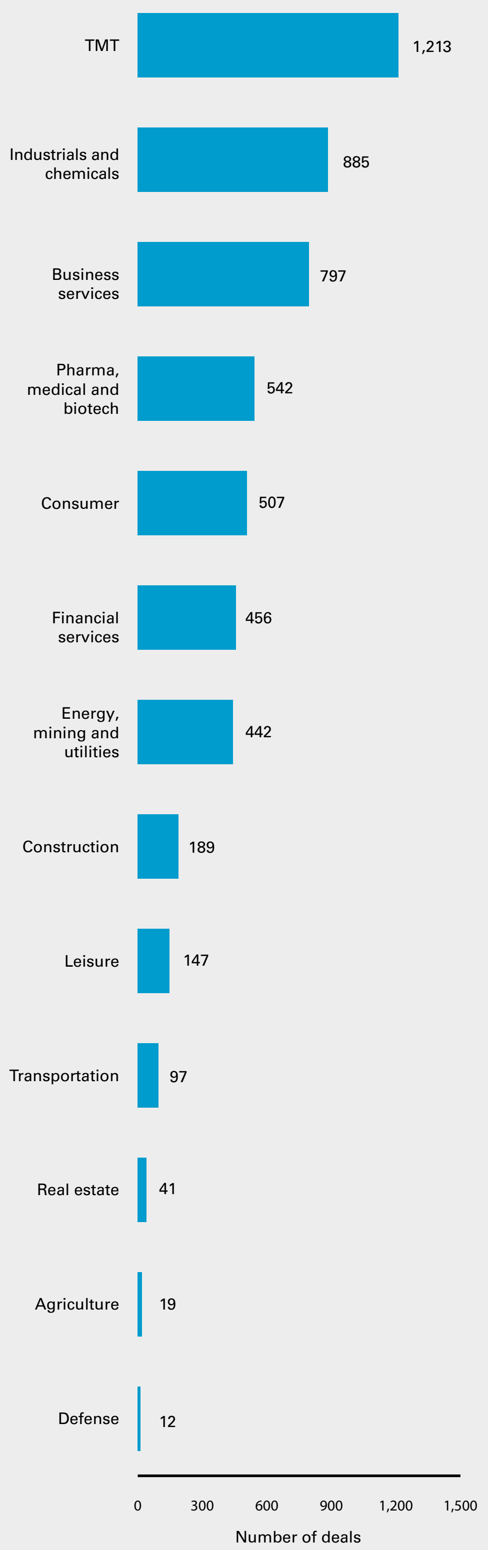
Financial services experiences a resurgence

The financial services sector saw a rebound in M&A activity through 2017, with deal value leaping 82 percent year-on-year to reach US$147.5 billion. Pharmacy group CVS's agreement to pay US$67.8 billion for health insurer Aetna accounted for 46 percent of overall financial services deal value in 2017. The transaction is viewed by many analysts as a response to plans by Amazon to move into the drug distribution market.

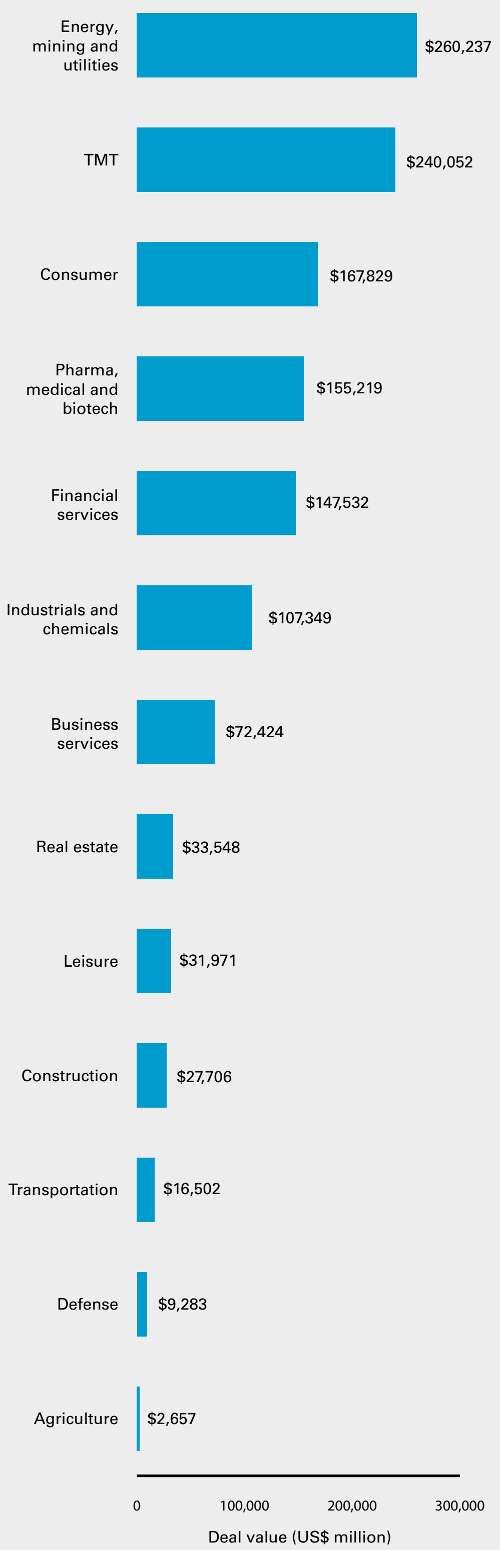
Tech serves as cross-sector deal catalyst

Technology continues to have an impact on deals across the board, crossing traditional sector boundary lines in the process. This convergence is reflected in total TMT volume figures, with 1,213 transactions marking the highest number across all sectors in 2017. Amazon's purchase of Whole Foods is a prime example of this cross-sector approach to tech M&A. Technology has been an equally key driver in the healthcare, manufacturing and automotive sectors.

M&A sectors by volume



M&A sectors by value



Technology M&A volume skyrockets in 2017

The sector saw the highest number of deals across all industries in 2017, as the hunt for innovative technologies continues to break down sector boundaries

Emerging technologies—including those related to autonomous vehicles, blockchain and machine learning—continue to drive acquisitions, as companies seek scale and market presence. The TMT sector underwent a 33.7 percent drop in value year-on-year to US$240 billion, but volume increased 4 percent to 1,213 transactions—the highest across all sectors in 2017.

However, big-ticket deals are still very much on the table, as evidenced by semiconductor group Broadcom's unsolicited US$130 billion bid for wireless technology business Qualcomm. The proposed deal would result in the largest tech deal in history.

Diversification and consolidation

"The largest technology companies want to capitalize on ever-growing markets for cloud-hosting and cloud-computing, as well as digital content distribution, machine learning and AI," says Bill Choe, partner at White & Case. Cisco Systems, for example, has announced its plans to acquire machine learning operations analytics firm Perspica and fold it into AppDynamics, an application performance analytics business it previously acquired for US$3.7 billion in January. The AppDynamics deal was part of Cisco's wider strategy to diversify and broaden its networking hardware expertise into data analytics.

Meanwhile, the need to consolidate within the semiconductor space continues to drive deals in the top end of the market. In the largest US tech transaction of the year, Marvell Technology Group acquired rival chipmaker Cavium for US$6.3 billion. The deal signals the ongoing trend of consolidation within the industry, as larger firms, such as the previously mentioned Broadcom, threaten to monopolize the market.

1,213

Number of TMT deals in the US in 2017—the highest across all sectors in 2017

US $240 billion

Value of deals in US technology M&A in 2017—a 33.7 percent drop compared to 2016

Everyone's a tech company now

Tech deal activity continues to be spurred by transactions that enable tech companies to use M&A to expand into adjacent sectors, as was the case with Amazon's purchase of upmarket grocery chain Whole Foods for US$13.5 billion.

Another example is online media firm Internet Brands' US$3.4 billion purchase of WebMD, a provider of health information services through various online portals and mobile platforms. "The ubiquity of connected smart devices and advancements in computing power and storage capacity have transformed industries across the board and broken down historical barriers," says Arlene Hahn, partner at White & Case. "As a result, companies that were historically considered bricks-and-mortar are now potential tech targets."

Top technology deals 2017

1. A consortium led by SoftBank agreed to acquire a 17.5 percent stake in Uber Technologies, Inc. for **US$9 billion**

2. Marvell Technology Group agreed to acquire Cavium, Inc. for **US$6.3 billion**

3. Cisco Systems bought AppDynamics for **US$3.7 billion**

Pursuit of scale drives consumer M&A in 2017

The race to consolidate resulted in a flurry of megadeals in 2017, while the disruptive impact of technology on consumer behavior continues to generate activity

M&A deal value in the consumer sector saw phenomenal growth compared to 2016, climbing 139 percent to US$167.8 billion.

Megadeals in the consumer sector were a major trend of 2017. These were exemplified by British American Tobacco's US$60.5 billion acquisition of a majority stake in Reynolds, and Reckitt Benckiser's US$17.8 billion sale of its food business to Mead Johnson & Company dominating headlines. "Scale has become so important in this sector," says White & Case partner Mort Pierce. "You need to be big to have clout with suppliers."

Changing with the times

Traditional retailers face an imperative to deal with the impact of technology on consumer behavior and shopping habits. "The emergence of multichannel shopping has forced all retailers to look at how they reach customers and incorporate technology into their businesses," Pierce adds.

Wal-Mart, for example, has agreed to a deal with Google that will allow its customers to order thousands of Wal-Mart products by voice through the Google Express online shopping service. Costco and Target have similar deals in place with the technology group.

Building bricks

Technology companies with retail interests are also using M&A to expand their capabilities, as demonstrated by Amazon's groundbreaking US$13.5 billion acquisition of upmarket grocery chain Whole Foods, giving the online retailer access to a network of more than 360 stores.

"Tech retailers still see value in bricks and mortar stores, and are looking at ways to use data to enhance the in-store experience and integrate it with their technology business. We should see more of these kinds of deals going forward," says Pierce.

139%

Increase in consumer deal value year-on-year

US $167.8 billion

Value of deals in US consumer M&A

Top consumer deals 2017

1

British American Tobacco Plc bought Reynolds American Inc. (57.83 percent stake) for **US$60.5 billion**

2

Reckitt Benckiser Group Plc bought Mead Johnson & Company for **US$17.8 billion**

3

Amazon.com, Inc. bought Whole Foods Market, Inc. for **US$13.5 billion**

"

The emergence of multichannel shopping has forced all retailers to look at how they reach customers and incorporate technology into their businesses.

Insurance deals power financial services M&A in 2017

Insurance assets are attracting dealmakers due to low capital requirements and steady cash flows. Established fintech providers are using M&A to expand geographically

Since the credit crisis, financial institutions have had to significantly increase their capital reserves to meet new regulatory requirements and rebuild their balance sheets. This reduced the amount of cash available for M&A. Yet the picture now appears to be changing, with the sector attracting some big-ticket deals in 2017. Total M&A value jumped 82 percent year-on-year, with US$147.5 billion spent over 456 deals.

Insuring growth

The insurance sector has been a particularly active area for deals, with dealmakers attracted to steady cash flows and relatively low capital expenditure requirements. Indeed, insurance targets accounted for the top-four financial services deals of 2017, including asset manager MetLife's US$6.1 billion spin-off of its retail and annuities business Brighthouse Financial.

Health insurance is emerging as a key area for M&A. In the highest-valued financial services deal of the year, pharmacy group CVS recently agreed to pay US$67.8 billion for health insurer Aetna. The transaction is viewed by many analysts as a response to plans by Amazon to move into the drug distribution market. The deal is also seen as a way for CVS to strengthen its purchasing power in negotiations with pharmaceuticals providers.

Centene Corporation, a multi-line healthcare group that serves as a key intermediary for state and private healthcare insurance programs, also announced its US$3.7 billion purchase of Fidelis Care. The transaction has strengthened Centene's government-sponsored healthcare business, ensuring it now has a market-leading position in California, Florida, New York and Texas, the four largest managed care states in the US by membership.

Fintech expands its footprint

The fintech space has been a major force driving M&A in financial services, particularly as fintech companies—now established service providers in their own right—turn to M&A to expand geographically and consolidate their specialist areas. US payments firm Vantiv, for example, made a major international push by acquiring UK counterpart Worldpay in a US$12 billion deal. And Vista Equity Partners, the backers of Misys, supported the US$4.8 billion merger of Misys and D+H to form Finastra, which will be one of the largest fintech companies in the world.

82%

Increase in financial services deal value compared to 2016

US $147.5 billion

Value of deals in US financial services M&A

Top financial services deals 2017

1

CVS Health Corporation agreed to acquire Aetna Inc. for **US$67.8 billion**

2

MetLife, Inc. (shareholders) acquired Brighthouse Financial, Inc. for **US$6.1 billion**

3

Kohlberg Kravis Roberts & Co. L.P., and Caisse de Dépôt et Placement du Quebec bought USI Holdings Corporation for **US$4.3 billion**

Energy dealmaking is fueled by oil and power

Oil & gas dealmaking continues to generate the bulk of sector activity; consolidation in the power sector was driven by unsettled market conditions

M&A in the energy sector has taken a hit in 2017, with value dropping 20.5 percent to US$260.2 billion. Volume remained relatively stable, decreasing a modest 4.7 percent to 442 transactions. However, while overall value may be down year-on-year, oil & gas and electrical power delivered some sizable deals this year.

Midstream, MLPs and M&A

As oil prices settled in the US$60 to US$70 range, companies became more confident about predicting production costs. "The improving oil price should help drive M&A activity within the sector," says White & Case partner Greg Pryor. A less volatile oil price has supported a lift in acquisition activity in the Permian basin, while ongoing repositioning in the midstream sector has provided further impetus.

"A hallmark of 2017 has been the number of master limited partnership (MLP) transactions," adds Pryor. This dealmaking strategy, aimed at simplifying structures and increasing returns, resulted in the largest energy deal of the year—ONEOK Inc.'s US$17.1 billion purchase of a 60 percent stake in ONEOK Partners. This was followed by Williams Companies' acquisition of a 32 percent stake in Williams Partners for US$11.4 billion.

Power firms switch on deals

M&A within the electric power industry has been driven by challenges to organic growth, particularly for traditional power generators. Firms have turned to dealmaking as a strategy to secure long-term growth. Vistra's decision to acquire Dynegy for US$10.7 billion was largely due to the need to consolidate.

Furthermore, cheap natural gas obtained from shale fields has driven down electricity prices, leading to a challenging wholesale pricing environment. "Firms are looking at their portfolios and asking what they have to do to achieve the results they need in the current pricing environment. That usually leads to M&A activity," says Pryor.

Regulation on the rise

Regulation is proving to be a challenge for dealmakers in the US power sector. In April, the Kansas Corporation Commission (KCC) blocked the US$12.2 billion acquisition of utility firm Westar Energy by Missouri-based Great Plains Energy, one of the largest power deals announced in 2016. The Public Utility Commission of Texas, meanwhile, blocked NextEra Energy's US$18.4 billion bid for Oncor Electric Delivery. This regulatory scrutiny is a fact of life in the utility space, and savvy dealmakers must carefully strategize and be prepared to address any concerns.

20.5%

Percentage decrease in deal value compared to 2016

442

The number of deals targeting the US energy sector in 2017

Top energy, mining & utilities, deals 2017

1

Sempra Energy agreed to acquire Energy Future Holdings Corp. for **US$18.9 billion**

2

Marathon Petroleum Corporation agreed to acquire MXLP LP (40.32 percent stake) for **US$17.3 billion**

3

ONEOK, Inc. bought ONEOK Partners, L.P. (60 percent stake) for **US$17.1 billion**

Industrials and chemicals M&A moves into the digital age

While market uncertainty surrounding tax reforms and NAFTA negotiations caused sector deal value to take a hit in 2017, technological convergence continues to generate a healthy level of deals

Dealmaking within the industrials and chemicals sector relies on stable market conditions to prosper. Many companies in sub-sectors such as automotive and manufacturing require clear direction on future trading relationships before committing to large expenditures on M&A. As such, uncertainty surrounding the impact of tax reform and the future of NAFTA resulted in a softer M&A market in 2017. While deal volume edged 1 percent ahead of 2016 to 885 deals, deal value halved to US$107.4 billion.

NAFTA gamble too big a risk

The NAFTA trade agreement helped the US automotive industry to prosper, with a lot of imports used by manufacturers coming from North of the border. The ongoing NAFTA negotiations with Canada and Mexico hold considerable uncertainty for the future of the US automotive industry. As such, dealmakers may wait for a clearer picture to emerge before they take their business further. "If you are an acquirer in the automotive industry with a big balance sheet and ready access to cash, are you going to roll the dice with the uncertainty now on what NAFTA will ultimately look like? It is likely a lot easier and a lot safer to just buy back shares or pay a dividend," says White & Case partner Michael Deyong.

Crossing sector lines

Convergence has changed the nature of M&A in the sector, with transactions conducted across sector lines becoming the new normal. "You don't just see manufacturing company A buying manufacturing company B anymore," Deyong says. Despite the brake that policy uncertainty may have placed on industrials and chemicals deal activity, the rapid convergence between technology and businesses in manufacturing and automotive has meant that deals within the sector continue to close. Technology company Intel Corporation, for example, paid US$15 billion for Israeli advanced driver assistance system developer Mobileye, which positions the tech group as a key player in automotive manufacturing. "Companies are planning for up to five years in advance and are acquiring businesses now that will allow them to shift and adapt in the digital age," Deyong adds.

885

Number of deals in US industrial M&A in 2017

US $107.4 billion

Value of deals in US industrial M&A—deal value halved compared to 2016

Top industrials & chemicals deals 2017

1

United Technologies Corporation agreed to purchase Rockwell Collins for **US$30 billion**

2

Crown Holdings agreed to acquire Signode Industrial Group for **US$3.9 billion**

3

Caisse de Dépôt et Placement du Quebec bought Suez Water Technologies & Solutions for **US$3.4 billion**

Searching for the next big thing: Healthcare M&A in 2017

The hunt for blockbuster drugs is driving activity within the sector, while technology firms' increasing presence in the market will be an area to watch in 2018

Despite a fall in headline figures, the healthcare sector continues to produce large deals, as companies use M&A to consolidate, reduce cost bases and broaden product portfolios. M&A volume decreased 4 percent to 542 deals in 2017, and deal value fell 15 percent to US$155.2 billion.

Building new pipelines

Within the pharma sub-sector, companies have made acquisitions to bolster their R&D pipelines and enter new adjacent markets. "There is always the search for the next blockbuster drug. If you can't develop it on your own, you will go out and you will buy someone that is developing it," says Mort Pierce, partner at White & Case.

One such example is Gilead Sciences' US$10.2 billion acquisition of Kite Pharma, which diversified its portfolio away from reliance on its hepatitis C drug pipeline. More recently, Gilead announced its US$567 million purchase of Cell Design Labs, providing it with access to new development pipelines for cancer treatments. Meanwhile, Japanese giant Takeda's US$4.8 billion acquisition of Ariad delivered results when an Ariad lung cancer drug was approved by regulators a few months after the deal.

Medical muscle

Deal activity within the medical sub-sector is being driven by increasing pressure placed on suppliers to consolidate, reduce prices and create larger product portfolios.

542

Number of deals in the US healthcare sector in 2017

15%

Percentage decrease in deal value targeting the sector compared to 2016

These drivers resulted in the largest deal of the year: medical supplies company Becton, Dickinson & Co.'s US$24 billion agreement to buy rival C.R. Bard. Through the deal, Bard adds oncology and surgery devices to its portfolio—both high-growth areas.

Tech infiltration

Healthcare companies are increasingly turning to M&A in response to challenges from technology companies encroaching on their markets. Pharmacy group CVS recently agreed to pay US$67.8 billion for health insurer Aetna in response to news that Amazon was preparing to move into medicine distribution. The deal also provides CVS with more purchasing power when dealing with pharmaceutical companies. "When a company like Amazon picks new areas that it wants to go into, that will spur deal growth by companies already operating in that sector, so that they can compete more effectively," says Pierce.

Top pharma, medical & biotech deals 2017

1

Becton, Dickinson & Company agreed to buy C.R. Bard, Inc. for **US$23.6 billion**

2

Gilead Sciences acquired Kite Pharma for **US$10.2 billion**

3

Abu Dhabi Investment Authority and GIC Private Limited agreed to buy Pharmaceutical Product Development, LLC for **US$9.1 billion**

Four key trends moving the M&A needle in 2018

M&A's strategic relevance will ensure transactions continue to close in the face of geopolitical uncertainty. But trends in four areas—taxation, technology, PE, and antitrust—could define the coming year of dealmaking

Although value did not reach the heights seen in the previous two years, growth in volume illustrated the resilience of the US M&A market in 2017. And with strong economic fundamentals, favorable tax reforms, a vibrant PE sector and the continued convergence between technology and other sectors, 2018 is set to match or better 2017.

Below are the four key factors that dealmakers need to be aware of in the year ahead:

Tax reform
Congress managed to sign a tax reform package into law at the close of 2017, and US businesses are awaiting substantial cash windfalls from significant reduction in the corporate tax rate and a "tax holiday" on overseas earnings repatriated back into the US. With corporates already sitting on large cash piles, investors will insist that the windfall be put to work, and M&A is likely to be high on many agendas.

Tech convergence conquers all
Expect the lines between sectors to continue to blur as companies in all industries spend on technology acquisitions, while technology companies set their sights on groups outside of their own space. The huge progress made in connectivity, data analytics and computer storage means that tech has become an essential part of any company's business model. Tech companies themselves, meanwhile, have become aware of how they can apply their platforms and software in "non-tech" industries.

Private equity's continued push
When faced with macro-economic uncertainty, corporates sitting on large cash piles always have the option of executing a share buyback or paying out a dividend rather than making a big bet on an M&A deal. Private equity firms have no such luxury, and have to keep investing come what may. With buyout firms sitting on record amounts of capital, they will become increasingly influential and competitive in M&A markets.

Antitrust angst
There is growing concern in M&A circles about the impact of antitrust enforcement on transactions. A number of deals in TMT and healthcare have fallen by the wayside in the face of interventions from antitrust regulators. Dealmakers will be watching developments in 2018 with interest, with CVS's purchase of Aetna in the healthcare sector expected to be one of the main bellwethers for M&A practitioners.

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