ALLEN & OVERY

M&A Index, Q4 2014

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Executive summary

Optimism becomes reality

A surge in CEO confidence, underpinning a wide range of transformational strategic deals, turned 2014 into the strongest year for transactions since the financial crisis and, as our latest survey of global M&A trends shows, optimism abounds.

It seems a little unusual to end a year on a truly optimistic note. There has been little call for optimism since the financial crisis struck, with the M&A market taking far longer to recover its health than anyone expected.

But our latest analysis of global M&A deals worth more than USD100 million shows that recovery is well and truly with us, with volumes continuing to soar and the average deal size standing at its highest level since 2007.

The growth has come on the back of some important fundamentals: good reserves of corporate cash, continuing low interest rates and relatively stable equity markets (in the first three months of the year, anyway). All of this has given CEOs the confidence to go back on the acquisition trail and to do the sort of big-ticket strategic deals that have the potential not only to change individual company fortunes, but to transform entire sectors.

Megadeals have dominated the scene in 2014. We have seen 94 deals worth more than USD5 billion, an 81% increase on 2013. Cross-border transactions have also reached their highest level since the crash. Two regions in particular have driven growth: the U.S. and, perhaps more surprisingly, given ongoing economic concerns, Western Europe. Asia Pacific is growing more slowly, however. Greater China is continuing to power ahead, with domestic deals still in the ascendancy, but with a growing number of outbound and inbound transactions. One region where major uncertainties remain is the CIS and, to a lesser extent, CEE, both feeling the impact of Russia's current economic malaise that has accelerated following the Ukraine crisis and which has been exacerbated by the plunging oil price.

From a sector point of view, life sciences and TMT have been the real standout areas of growth, the former propelled in the first half of the year by tax inversion deals – subsequently partly choked off by the U.S. Treasury – and by a move towards strategic precision M&A and growing investment in both biotech and medtech businesses. In TMT, the story has been about consolidation in the telecoms market and the continued adventurous dealmaking by tech giants, which we expect to continue.

Deals are getting more complex as they become more strategic, and it is no surprise that some do not make it over the line. Nevertheless, a great many have done so, and they have tended to be whole-company deals offering the chance for companies to increase their focus in key chosen areas or bolt on new areas of growth.

Inevitably, with increased growth in transactions comes a return to more hostile activity – there has been a 750% growth in the value of hostile bids this year. Shareholder activism – with hedge funds taking positions in companies to force change or to put companies in play – is also a growing feature, and not just in the U.S., but in many other markets.

PE funds are also becoming more active. While exits remain the priority (with the value of exits exceeding EUR100bn in 2014), they are nevertheless beginning to contemplate significant buyouts again, although, despite having plenty of firepower, they have little appetite to compete with strategic players willing to pay a premium for prized assets.

Privatisations should also be a significant driver of deals in the year ahead across a range of sectors, but with Europe and Asia Pacific expected to see the highest number of state sell-offs.

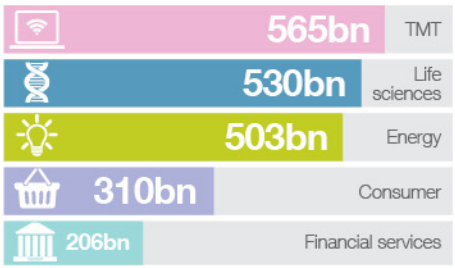
The economic environment is, perhaps, not as settled at the end of the year as it was at the beginning, and that has been reflected in growing stock market volatility in recent weeks. There are growing worries about higher interest rates, for instance, which could hurt investor and consumer confidence.

But we continue to believe the fundamentals are strong enough to support continued growth in transactions in 2015. Indeed, from this vantage point, it looks likely that volumes could be even higher in the next 12 months.

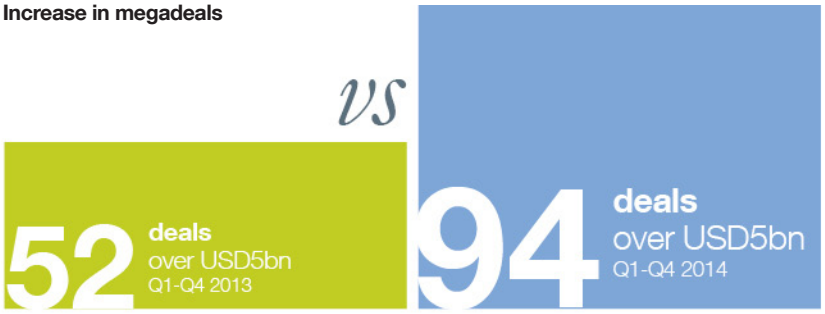
Global M&A in numbers

2014

Top 5 sectors by value (USD)

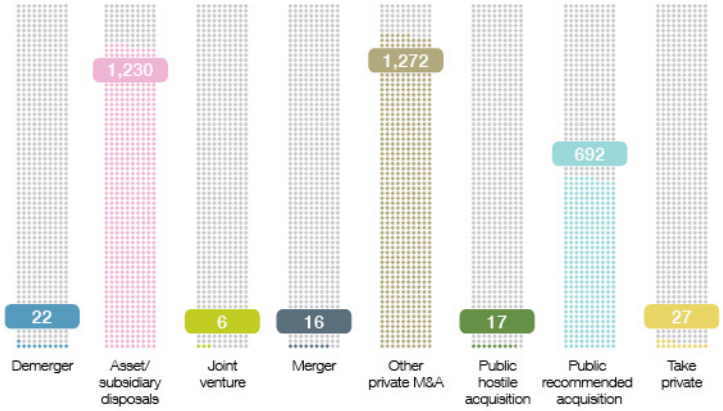


Increase in megadeals

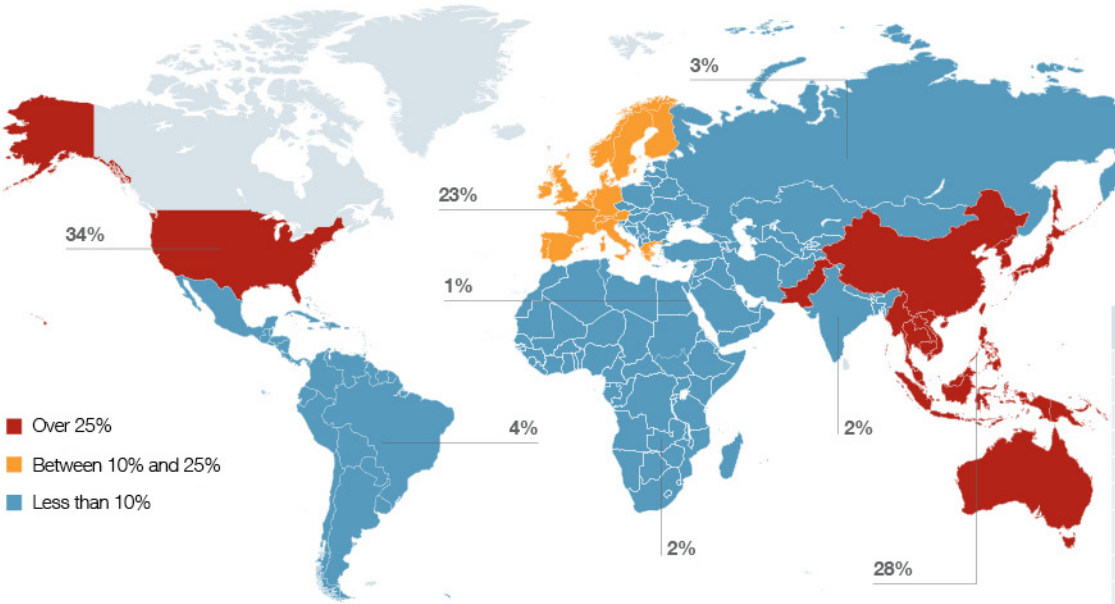


A positive outlook

Deal types by volume



Deal volumes by region



Region	% of deals by region
U.S.	34%
Asia Pacific	28%
Western Europe	23%
Latin America	4%
CEE and CIS	3%
India	2%
Sub-Saharan Africa	2%
MENA	1%
Other	3%

Note: These numbers represent deals worth over USD100m and span from 1 January 2014 to 4 December 2014 inclusive

In focus

Private M&A – growth balanced by caution

As in the public M&A sphere, private transactions are growing strongly again. But buyers and sellers continue to heed the lessons learned in the years following the financial crisis.

Seven years on from the height of the financial crisis, we are beginning to get a much clearer perspective on how private dealmakers are adjusting to a strongly recovering transaction market and their continuing concerns about deal processes and prices.

Each year, we analyse private M&A deals that we have advised on to pull out prevailing trends and this year we have taken a longer view, comparing over 400 deals we have worked on since 2012 with targets in the Americas, the UK, Europe, the Middle East and North Africa, Asia and Australasia.

Here, as with public M&A, it is clear that the market is recovering strongly. The volume of deals in our sample has grown from 124 in 2012 and 135 in 2013, to reach 170 in 2014. There has also been a growth in high-value deals, marking a shift towards more strategic transactions and with fewer divisional assets for sale in 2014. It seems that, in many sectors, work by companies to streamline their activities – a major preoccupation in the years immediately after the crisis – has largely been completed.

The growth in deals is clearly being fuelled both by high levels of corporate cash and by the ability to borrow at low interest rates. But, significantly, we have not seen a return to the highly competitive pre-crisis environment. Egged on by buoyant equity markets early in 2014, sellers are demanding high prices for assets and buyers remain cautious about over-paying, although premiums may be applied where they see the opportunity to extract significant synergies or to secure market position.

The auction market is also proving interesting. 2014 saw fewer deals conducted by auction – 35% compared with 47% and 41% in 2012 and 2013, respectively – indicating that sellers remain wary about this approach, given the high number of processes that stalled or failed in the recent past. However, competition in auctions increased. Indeed, 24% of auctions were highly competitive in 2014, with two or three bidders run hard to the end of the process, compared with 18% the year before.

Given the costs involved, large deals are more likely to be conducted as auctions. We found that 48% of deals worth more than USD500m were auctions rather than bilateral sales, compared with only 31% of deals worth less than USD250m. The bigger auctions were also more competitive. Of the deals that we analysed that were worth more than USD500m, 54% were highly competitive compared with just 14% of deals worth less than USD250m.

Some significant regional differences are evident. The Americas and Asia saw the lowest proportion of auctions during the year (8% and 25%, respectively). Traditionally, auctions have been very popular in the U.S., not least because of legal pressures on boards to demonstrate that they are using a process that maximises value. But U.S. boards seem to be increasingly questioning what can be achieved by auction and instead opting for a bilateral deal on the theory that there can be more than one way to maximise value and still get 'business judgment rule' protection. Elsewhere in the world, between 35% and 45% of deals were done by auction, with competition for assets highest in Europe (excluding the UK) and Australasia.

PE funds remain reluctant to get into an auction battle with those well-funded strategic buyers that are prepared to pay a premium for valued assets that can increase market share. While PE houses also had cash to deploy in 2014, they were clearly only prepared to do deals on the right terms.

Most sellers would prefer to attract a bidder that can offer an unconditional deal, but these days that is relatively rare. In fact, 75% of the 2014 deals we analysed contained at least one, and often multiple, conditions to closing.

Antitrust and regulatory conditions to closing were the most common, evident in 55% of the deals we analysed. One reason for this is the proliferation of antitrust regimes around the world, and the sometimes disproportionate impact that regimes with very low thresholds can have on an international deal, even in a jurisdiction that is not significant in terms of the overall transaction.

Deals in the Americas were the most highly regulated. All of the deals in this region were conditional and 83% included antitrust or regulatory conditions. By contrast, only 35% of deals in Asia were subject to regulatory approvals. But the picture may be changing here, not least with China taking a much firmer stand on competition and as some ASEAN nations beef up regulation in 2015. More broadly, as the number of strategic deals grows it could lead to more 'me too' deals, aimed at retaining market share, which will progressively reduce the number of players on the field and therefore make the antitrust issues more challenging.

Pre-crisis, private M&A was clearly a seller's market – they could easily dictate terms. That all went into reverse after the crash and buyers came strongly into ascendency. With transactions now in strong recovery, the pendulum might be expected to swing back again.

In reality, that has not happened yet. Instead, we are seeing more balance between the two sides. While we have not seen a return to pre-crisis 'covenant-lite' deals, buyer-friendly terms such as price adjustments, material adverse change termination rights and repetition of warranties at closing are now only appearing in about 50% of deals globally (although with regional variations).

This balance can also be seen in terms of caps and thresholds. In 2013, sellers protected themselves from harsh deal terms by insisting on lower caps and higher claim thresholds, but in 2014 average caps globally rose slightly from 33% to 36% of total deal value, while thresholds fell from 1.6% of deal value to 1.1%. Again, there were wide differences from region to region. While average liability caps as a percentage of deal value stood at just 13% in the Americas, they averaged 52% in Asia.

For a detailed briefing on our report on global trends in private M&A, please speak to any of our Corporate partners or your usual Allen & Overy contact.

In focus

Competition – regulators up the ante

As new business models emerge in key markets, antitrust enforcement and regulation across the world are becoming not only more challenging, but also a great deal more complex.

A new European Commission came into office in Brussels in November and, with it, the new Commissioner for Competition, Margrethe Vestager. In her in-tray she found a number of very 'hot files', including cases against Google and other digital giants. The temperature was raised further still by the European Parliament voting through a motion calling for the break-up or unbundling of search engines from other commercial services, should antitrust enforcement prove inadequate in controlling their market power.

The challenges to be faced by Commissioner Vestager were illustrated in a mission letter from the new Commission President, Jean-Claude Juncker, inviting her to take up the post.

Painting a broad economic remit for her, he said she should focus on "mobilising competition policy tools and market expertise so that they contribute to our jobs and growth agenda, including in such areas as the digital single market, energy policy, financial services, industrial policy and the fight against tax evasion".

He added: "It will be important to keep developing an economic as well as a legal approach to the assessment of competition issues and to further develop market monitoring in support of the broader activities of the Commission". He stressed the importance of rules in key areas, including antitrust, cartels, mergers and state aid and urged her to promote international cooperation.

Those broad ambitions for competition policy are interesting in the context of the EU – which, for many years, has been one of the world's most activist antitrust regimes.

But they are more interesting, perhaps, in that they map out a path which more and more authorities are taking across the globe, with competition policy evolving quickly, and often in highly complex ways, to address new market challenges, particularly in the digital arena.

We are seeing this in merger control, abuse of dominance, as well as cartels.

More than 100 jurisdictions now apply merger control rules and we are not only seeing new regimes emerge – for instance COMESA (a common market between eastern and southern African countries) and between countries in the ASEAN region – but also seeing established regimes take new directions in policy.

The EU, for example, is considering extending its merger control reach to the acquisition of minority shareholdings, something not currently covered by its merger control rules. This initiative gained momentum after Ryanair's proposed takeover of Aer Lingus, a case the Commission felt revealed an enforcement gap – it was able to block the full acquisition, but could not intervene at EU level over the initial acquisition of a minority stake. Some feel this reform is a clear case of overreach, and one that will result in a real burden for both companies and the competition enforcers themselves.

Regimes, of course, vary widely in both their approach to remedies and the sheer time it takes to get clearance. China's competition authority, MOFCOM, for instance, is becoming increasingly active, particularly in tech deals, but the process of gaining clearance and agreeing remedies is notoriously drawn-out.

Although MOFCOM has recently introduced measures to expedite reviews of non-problematic cases, a large portion of benign deals still get caught in a protracted review process.

By contrast, the European Commission typically reviews 250-300 deals a year. Only a small minority of these deals (1%-4%) go to in-depth – phase II – investigation. Another small proportion (3%-5%) is cleared, subject to conditions. Out of phase II cases in the 2012 to 2014 period, we have had three prohibitions (Deutsche Börse/NYSE, Ryanair/Aer Lingus and UPS/TNT) and 13 clearances subject to remedies.

Some industries insist that they are in desperate need of scale and consolidation to promote investment in new technology. European mobile operators, focused on investing in 4G, have been very vocal about the need for more consolidation and there has been a wave of deals reducing competing national operators from four to three, starting in Austria and then spreading to Germany and Ireland. Others are in the pipeline.

The Commission has reviewed each of these deals in depth and has only been willing to approve them subject to remedies which maintain competition at the retail level. The remedies usually make it much easier for new entrants, particularly operators of virtual networks, to enter the fray by gaining access to spectrum or existing networks.

Infrastructure consolidation is also driving megadeals in the U.S., with the proposed Comcast/Time Warner Cable merger, currently under investigation by the Department of Justice and the

Federal Communications Commission, a case in point. Opinions are divided about the consumer effects of the deal, not least the risks it poses to online video distribution.

Outside the M&A arena, regulators are trying to come to grips with new business models in the digital environment and whether recently acquired positions of market power require regulatory intervention. Many invoke antitrust intervention as the appropriate response; others question whether that is wise.

A number of the market players whose dominance is called into question operate on so-called 'multi-sided platforms', where a company may be balancing the interests of two distinct but related groups of users – for instance users and advertisers on a digital platform. That is tricky. Business strategy and competition issues in such markets may be significantly different from those that arise in the single-sided business models which have attracted antitrust enforcement over the last century. They call for new thinking.

It is, perhaps, significant that Jean Tirole – the French economist whose work on regulating complex markets, particularly in sectors dominated by oligopolies as well as multi-sided platforms – was this year awarded the Nobel prize for economics. A central part of his work has been to demonstrate that competition policy needs to be subtly adjusted to meet the challenges of different markets – that a 'one-size-fits-all' approach simply will not suffice.

In some cases, probes are taking a great deal of time – nowhere more obviously than in the Commission's ongoing investigation into whether Google is using its market position in search to favour its own services and separate complaints from publishers and news providers about Google's use of content. Several years on, despite a range of market-tested remedies, there is no end in sight. The ball is now in Commissioner Vestager's court.

The one area that is usually safer ground for antitrust enforcement is cartels. Globally, we are seeing competition authorities imposing heavier fines and tougher jail sentences. In the EU, fines grew from EUR614m in 2011 to EUR1.7bn in 2014 (most of which related to the Libor case), and we are on course to see a similarly high level this year. In the U.S., the level of fines has also risen sharply, and here, as elsewhere, new market areas are being targeted, particularly in financial services. Indeed, of the USD1.27bn of cartel fines imposed in 2014, more than USD400m relates to fixing of the Libor interbank interest rate.

The shift of anti-cartel action into areas not previously considered likely to give rise to cartel activities – in particular the manipulation of benchmarking operations – is contentious. There is a clear overlap, and the potential for clashes, between financial regulation and antitrust.

Other intrinsically complex markets are also in the spotlight, often involving huge, international investigations, as we have seen with ongoing probes into the car parts industry by the EC, the U.S., Australia, Canada and Japan. There are many such cases in the pipeline within the EU, covering products as diverse as paper envelopes, plastic pipes, optical disk drives, sugar and marine transport.

As markets and new business models emerge, antitrust regulation is inevitably becoming a more complex science, nowhere more obviously than in the digital world, as demonstrated by many of the issues above. But it does not stop there.

For Commissioner Vestager and her peers around the world, and for companies across sectors, increasing complexity and increasing antitrust intervention is the order of the day.

In focus

Public M&A – let the hostilities begin

It is a mark of increasing investor confidence when you begin to see a growth of competitive and hostile activity in the transactions market. 2014 saw the return of the megadeal and, with it, an increasing willingness among bidders to take bigger risks.

In line with growing recovery in M&A transactions across the world, public deals are on the increase and 2014 has seen a strong return of the megadeal.

Take the UK, for example. This year has seen nine deals announced under the UK Takeover Code worth in excess of GBP1bn compared to just three deals announced in 2013. A steady pipeline of such deals throughout the year continued into Q4, indicating that the long-awaited recovery in transactions is proving resilient.

Notable transactions announced in Q4 included Aviva's GBP5.6bn all share acquisition of Friends Life, a deal on which we are advising, and the joint Qatar Investment Authority (QIA)/Brookfield GBP2.6bn offer to buy Songbird, owner of the Canary Wharf estate. We also saw completion of the recommended GBP5.2bn all share merger of TUI AG and TUI Travel, again a deal on which we advised. Other standout transactions included Ophir Energy's GBP314m bid for Salamander Energy and Greene King's GBP773.6m bid for Spirit Pub Company, the largest public deal seen in the pubs sector since the credit crunch.

Hostile bidding

As confidence builds, we are seeing a return of some hostile and competitive bid activity, a trend that is likely to persist if the recovery holds up.

So, for example, QIA/Brookfield's bid remains unrecommended. And Salamander has attracted rival interest from Spain's CEPSA. Although Greene King's offer for Spirit Pub Company is a recommended offer, until recently there was a possibility that it might be trumped by a higher bid from C&C, the Irish pub business.

Another mark of a more vibrant market is a growing number of ambitious bids and possible bids that fail to complete – a reminder that carrying off huge deals remains a highly complex task. Notable examples in 2014 included Pfizer's failed GBP69.4bn possible bid for AstraZeneca in the first half of the year, and, in H2, AbbVie's decision to walk away from its USD54bn merger with Shire, which would have been the year's biggest agreed merger.

Inversions on pause

In both cases, potential tax savings appeared to be an important driver, with Pfizer and AbbVie both supposedly motivated, in part, by the desire to redomicile to the UK's more generous corporation tax regime and achieve a tax inversion. With steps having been taken by the IRS in September to make the tax benefits associated with certain inversion deals more difficult to obtain, the market appears to have pressed pause on some of these deals while it takes stock of the rules. AbbVie walked away even though that meant shouldering a USD1.6bn break fee. And Pfizer has not returned to the fray since the expiry in Q4 of the six month cooling off period imposed on it under UK takeover rules.

But other deals are still going forward – those that are not purely driven by tax reasons and where other commercial factors are strongly at play. Examples are the USD43bn Medtronic/Covidien and USD1.9bn STERI Corp/Synergy Healthcare deals. And it is possible that we may see more of these deals in 2015 as market players become more familiar with the new measures and make a judgement on whether any further legislation with teeth is likely to emerge.

Another development set to have an impact on structuring is the UK government's decision to change the tax handling of deals carried out on a 'scheme of arrangement' basis. From early next year, cancellation schemes will no longer qualify for stamp duty relief, putting them on the same stamp duty footing as deals carried out as contractual offers (and transfer schemes). In recent years, cancellation schemes have been the vehicle of choice to execute takeovers and it will be interesting to see how the tax change impacts the deal landscape.

Activists alive and kicking

Shareholder activism, so long a prominent feature of the U.S. transactions market, is now taking root in a number of other jurisdictions. Crystal Amber, the UK activist group that has already taken a stake in other large companies including Aer Lingus, is reportedly planning to build a stake in UK grocer Sainsbury's. And it has recently confirmed that it is thinking about raising fresh funds to facilitate investment opportunities.

The U.S. remains not only the most vibrant place for public deals but also the prime market for such hostilities, though the overarching trend in this market is for

companies to end up settling with activists. Activist outcomes can be nuanced, as seen in the Valeant/Allergan situation. While the activist/strategic partnership between Valeant, and activist fund Pershing Square to try to take control of Allergan, ultimately failed, it succeeded on another level driving Allergan into the arms of white knight bidder, Actavis of Ireland, in a USD66bn agreed deal.

In more confident and competitive markets, we expect white knight defences to become more prevalent.

While litigation plays little role in public M&A in the UK, this is frequently used as a delaying tactic in France, notably in the context of competing bids. We have seen this recently in the 19-month takeover battle for Club Med, where an agreed bid for the luxury holidays business from China's Fosun International and PE house AXA Private Equity has been repeatedly trumped by rival offers from Global Resorts, backed by another fund, KKR. The time taken by the French court to rule on claims made by the minority shareholders (almost a year) has resulted in the initial Fosun offer being postponed several times and so exposing Fosun to competing bids.

In contrast to other recovering markets, Spain is seeing a growing trend towards key 'anchor' investors taking minority holdings in target companies, below the threshold that would trigger a full takeover. This has brought the issue of concerted action by investors back into the spotlight and an upcoming review of Spain's Companies Act is expected to focus, among other things, on activism by minority shareholders and corporate governance transparency. This is tricky territory, as the line between concerted activism to put pressure on the board and a concert party to take actual control of the company can be a thin one.

In the UK, it remains very hard to defend against presumptions of concert party activity, but the indications are that the Hong Kong authorities are willing to take a more receptive and pragmatic approach to the issue. That suggests that in Hong Kong, at least, there may be greater chances in future of the Hong Kong authorities applying a presumption and exonerating a presumed concert group from the mandatory general offer obligation.

Singapore versus Hong Kong?

Meanwhile commentary in the Asia Pacific region continues to centre on Hong Kong's and Singapore's rivalry to become economic hubs for the region, with transaction values of public takeovers increasing in 2014. If M&A activity is an indication of which one is ahead – and it is, of course, only one such measure – then Singapore appears to be closing 2014 in a stronger position.

Public M&A activity has remained rather stable in Hong Kong, with 22 public takeover transactions recorded in 2014, compared with 19 in 2013. Hostile takeovers remained uncommon, partly due to the fact that many Hong Kong-listed companies are held by shareholders with controlling stakes. The voluntary offer for Yashili International Holdings Ltd by China Mengniu Dairy Company Limited is one of the significant transactions in recent years.

On the other hand, it's been a very busy year for public M&A in Singapore, with the volume and value of deals surpassing levels seen in 2013. Standout deals during the year have included Temasek's offer for Olam International, CapitaLand's privatisation of CapitaMalls, KKR's buyout of Goodpack and 68 Holdings', an entity controlled by Singapore tycoon Ong Beng Seng and its concert parties, acquisition of a controlling interest in HPL.

Outbound activity has been brisk in 2014 too, including OCBC's takeover of Hong Kong's Wing Hang Bank, Fraser Centrepoint's acquisition of Australia's Australand Property Group and Svenska Cellulosa Aktiebolaget SCA's takeover of Hong Kong-listed Vinda International Holdings Limited.

Singapore has also amended its Companies Act this year and several of the provisions – including changes to financing assistance for private companies, clearer acceptance thresholds to give certainty to bidders and the inclusion of overseas shareholders in squeeze-out arrangements – could have an important bearing on future deal activity.

Regional insights

Growth in transactions has now spread to most regions, although different markets are advancing at different speeds, led by the U.S. and Western Europe, with economics and politics holding back the CEE and CIS.

U.S.

Pedal to the metal

The extraordinary recovery in U.S. transactions we have witnessed so far this year continued into Q4, where deal activity remained very strong in terms of the volume, value and quality of transactions. It has not been busier here since before the crash and there are signs that the financial crisis may finally have been wrung out of the system.

That is most evident in the way that strategic corporate investors are continuing to dominate the market and doing significant deals to extend their portfolios or to bolt on new areas of growth. We are seeing more whole company deals and fewer carve-outs. There is less emphasis on the disposing of assets.

Life sciences has continued to be a star performer throughout the year, not least because of a spate of tax inversion deals earlier in the year, and the sector produced the biggest transaction of Q4 with the USD66bn white knight bid by Actavis for Allergan.

Actavis – based in Ireland thanks to an earlier inversion deal – trumped a USD47bn bid by Valeant Pharmaceuticals, which had worked with activist shareholder Pershing Square to put Allergan in play.

The extent of the premium indicates, in part, the shareholder value that can be achieved through inversion, although U.S. authorities have now moved to tighten the regulations in this area and there will be fewer in the future.

Activism continues to be a prominent feature of the U.S. market, with hedge funds taking positions in companies to force strategic change, often involving transactions. Starboard Value is the most recent example of this, having had a position in office equipment group Office Depot, and has now built a stake in its biggest rival, Staples, suggesting that further consolidation may be on the cards in this sector.

Some of the edge has gone out of the energy sector, which was buoyant at the start of the year, thanks to the massive fall in the oil price. It remains to be seen if some investors who got on board the shale boom in expectation of the oil price remaining high will be forced to make distressed disposals in 2015.

By contrast, PE funds seem to finally be featuring more strongly on the buy side. Q4 saw the UK's BC Partners pay USD8.7bn for PetSmart, the first big-ticket PE acquisition for some time.

We remain confident that the market will remain busy, with plenty of deals in the pipeline. But there are some darker clouds in the corner of the sky, not least the oil price and worries about slower growth – factors that have unnerved equity markets in recent weeks.

Lower equity prices may mean that assets become cheaper, but that does not always promote transactions. Confidence is a crucial factor in M&A. If that confidence is bruised, M&A activity could begin to decline from its current high levels.

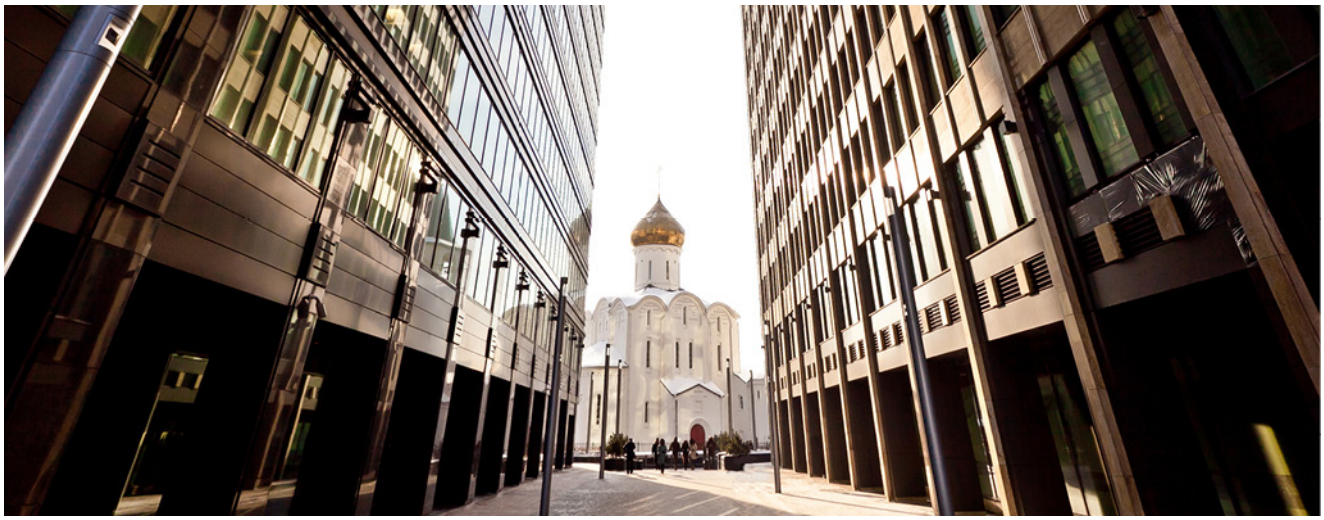
Western Europe

A recovery built to last

The major economies of Western Europe may be growing at widely divergent rates, but there is a consistent pattern of growth emerging in M&A markets across the region, with deals growing faster than at any time since the collapse of Lehman Brothers.

Transaction values in 2014, at USD863bn, were almost USD400bn higher than in 2013, a whisker away from a level last reached in 2008. This has been a year dominated by significant big-ticket cross-border deals, but we have also seen increased activity in the mid-market, PE funds becoming increasingly busy, and real strength in IPO markets. So it is not just the scale of deals that is noteworthy, but the diversity, too. It feels like a recovery that will last.

It seems fitting that Q4 should end with BT announcing plans to buy EE for GBP12.5bn from its German and French owners,



Deutsche Telekom and Orange. Throughout the year, we have seen some important strategic deals.

The UK saw the biggest deal in the insurance industry for 15 years in Q4, with Aviva buying Friends Life for GBP5.6bn. German companies have been involved in a raft of strategic acquisitions, many in the U.S., including Merck KGaA buying Sigma-Aldrich, SAP acquiring Concur Technologies, and Siemens buying Dresser-Rand. With Bayer already working on a spin-off of its MaterialScience division, and E.ON spinning off its fossil fuel interests to focus on renewable energy, a pattern of continued activity seems set.

PE funds are still predominantly focused on exits, but in Germany we have seen some sizeable buyouts, too, including EQT's acquisition of Siemens' hearing aid business and Triton's purchase of the GEA heat exchanger business.

There have also been important deals in the Netherlands, including Klépierre's EUR7.2bn takeover of Corio in retail property and Liberty Global's EUR4.9bn bid for Ziggo in cable. Belgium has seen the EUR3.6bn sale of Omega Pharma to Perrigo, the U.S.-owned, but Ireland-incorporated, group.

Spain's market is busier at all levels as investors take advantage of a recovering economy, and we are seeing increased outbound activity, not least Ferrovial's c.GBP1.05bn purchase, with Macquarie Group, of Glasgow, Aberdeen and Southampton airports from Heathrow Airport Holdings, and Telefónica's EUR7.5bn acquisition of GVT of Brazil and Germany's E-Plus for EUR8bn.

France, the busiest market in the region in Q2 this year, remains very active despite (or perhaps because of) the uncertain economic environment, here and elsewhere – M&A is a quicker way to expand in such conditions than through organic growth. Chinese investors are an increasingly prominent feature of inbound investment. A Chinese-Canadian consortium is seeking to buy a stake in Toulouse-Blagnac Airport, and Jin Jiang has successfully bid for Louvre Hotels.

Italy's Enel has announced plans to sell operations in Italy, France and South America as a part of an EUR4bn reorganisation. Italian activity is slowly on the rise, dominated by inbound deals. Strong domestic market consolidation is expected for 2015 as well as a number of big privatisations, including Enel, Eni, ENAV, Finmeccanica, Grandi Stazioni and Poste Italiane.

Life sciences have been big drivers of deals during the year, thanks to inversion deals earlier in 2014, as has TMT. But activity is now spreading across sectors – to real estate in Italy, for instance, and to newspaper publishing in Belgium. Financial services remains an anomaly, however, with transactions mostly focused on legacy issues, rather than bold strategic moves. However, the world's oldest bank, Italian Monte dei Paschi di Siena, seems to be attracting interest from international investors.

CEE and CIS

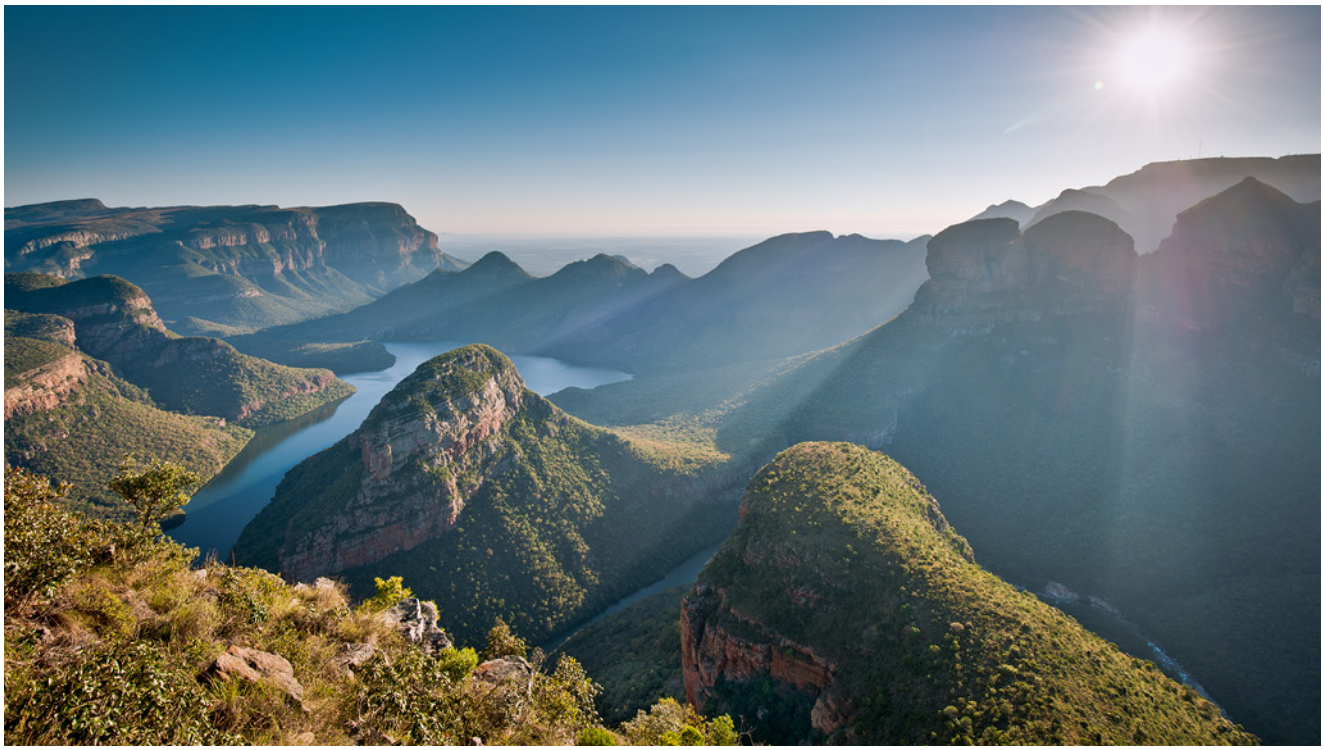
The brakes go on

Russia's growing economic woes in the wake of the Ukraine crisis are having an impact on activity throughout the CEE and CIS – but it is unclear to many why the impact has been felt so deeply across the region.

The statistics show that activity has slowed dramatically, with transaction volumes at a fifth of their level this time last year and deal values, at just USD4bn, a tenth of their Q4 2013 level.

Figures for the year as a whole perhaps offer a more realistic view. Volumes of transactions remain pretty similar between 2014 and 2013 (113 versus 124), but values have been more than halved to USD60bn, suggesting that smaller transactions are predominating here, rather than the blockbuster strategic transactions that we are seeing in some other markets.

Russia's economic situation looks stark as it heads into an expected recession in 2015, with the rouble quickly devaluing, equity markets tumbling and inflation and capital outflows rising sharply. In December there was an emergency hike in interest rates to 17%, which may stabilise the currency and inflation, but also deepen recession.



For now, deals are more likely to fall over. as we saw with Rosneft's failed acquisition of Morgan Stanley's oil trading business and the failed asset deal between Gazprom and Wintershall.

The tumbling oil price presents a major problem to an economy so dependent on its rich reserves of oil and gas. It remains to be seen if low oil prices are a temporary reality rather than a permanent trend and Russia, so far, has had the resources to see its corporate sector through financing constraints imposed by sanctions. It is also attracting finance from regions unaffected by sanctions, including the Middle East and China, and in other parts of the CEE and CIS region, investors are still showing the confidence to invest in energy – Petronas of Malaysia has just spent USD2.2bn to buy Statoil's 15.5% stake in the Shah Deniz field in Azerbaijan.

The crisis continues to have an effect on investor confidence elsewhere in the region and some investors are clearly fighting shy; on the other hand, others are re-examining their plans and concluding that, with time, it will be safe to move ahead again.

The Czech Republic, for instance, has seen a boom in real estate transactions in the last six months, as demonstrated by the Q4 shopping mall deal between Hannover Leasing and Union Investment for EUR565m. Investment in the Czech health sector by local investors is also lively.

The Polish market remained rather slow in Q4, with certain expected transactions delayed, including the sale of American Heart of Poland, the chain of cardiology clinics, by Advent. The outlook for 2015 is much brighter and we expect some big deals, including the sale of Agros-Nova by IK Investment Partners and the sale of HTL-STREFA by EQT funds. A number of transactions have yet to complete, including Polish Railways' sale of its telecom and energy subsidiaries and Tauron's sale of its wind assets.

Political change is having a significant impact in some markets. Hungary remains set on a policy of greater state control, affecting sectors as diverse as energy and banking.

In Bulgaria, investors are waiting to see how the return of a former prime minister with a wider coalition government will affect the market. In particular, there is some interest in how the funds from recent sovereign borrowing will be applied and how the key energy projects will develop. There is also plenty of fallout following the revocation of the licence of Corporate Commercial Bank by the Bulgarian National Bank.

In Romania, the new government appears to be convincing German investors, in particular, that this is a safe place to invest. Investors are becoming more confident in the judicial system and the increasingly vigorous fight against corruption, with important cases coming to court every month. Some of the most affected business sectors at present are construction and IT, and there are good prospects of the business environment becoming more appealing as a result.

Middle East and North Africa

Strengthening deal pipeline

The final quarter of the year began with the UAE dominating M&A activity, in terms of both value and volume, with two significant UAE domestic deals accounting for almost three-quarters of dealmaking by value in the region in October.

Optimism in the region as a whole continues, largely due to the expectation of continuing credit availability and strong corporate earnings, and the belief that the strength of the deal pipeline and increasing capital market activity means that the outlook for liquidity in the region is positive.

Overseas investors continue to be attracted to the region, and the quarter saw acquisitions from companies based in, among others, France, Turkey, the UK, the U.S., South Africa and Italy. This interest from overseas, particularly from strategic players, is expected to continue into 2015 and there is an expectation that M&A will be boosted by PE houses, investor groups and family businesses that have increased liquidity allowing them to do deals.

Notable deals in Q4 include the announcement by Danone of its proposed acquisition of an additional 21.75% interest in Centrale Laitière (Morocco), Morocco's leading producer of fresh dairy products, with a market share of nearly 60%, from SNI, the Moroccan royal family's investment fund, for USD347.5m. Danone has been Centrale Laitière's majority shareholder since 2013, and the latest acquisition raises its equity stake in Centrale Laitière to 90.86%, as Danone continues to move away from Europe into higher-growth markets.

Dubai's Fajr Capital announced that it had, together with a consortium including funds managed by U.S. PE house Blackstone and Bahraini sovereign fund Mumtalakat, acquired a significant minority stake in UAE-based GEMS Education's emerging markets business, which covers the Middle East, North Africa and East Asia.

In November, DP World, the third-largest container terminal operator in the world, announced the proposed acquisition of Economic Zones World, a Dubai-based industrial and logistics infrastructure firm majority-owned by the Dubai government, for USD2.6bn, making it the largest deal of the year in the region.

Aabar Investments, an Abu Dhabi government-owned diversified investment company, acquired approximately USD1bn worth of shares in Arabtec, the largest construction group in the UAE, from Hasan Ismaik, Arabtec's former chief executive. The acquisition increased Aabar's stake in Arabtec to approximately 34.9%, making it Arabtec's single largest shareholder.

Equity capital markets activity continued in the UAE in Q4, with Dubai Parks and Resorts, a subsidiary of Meraas Holding, launching its IPO and listing on the Dubai Financial Market. The IPO raised approximately USD690m, giving the company a market capitalisation of approximately USD1.7bn when it listed on 10 December 2014. The company will use the proceeds to partially fund a USD2.9bn multi-themed leisure and entertainment destination in Dubai. Additional funding was secured through a USD1.15bn conventional and Islamic term facility. The listing was well received, with the IPO book covered over 65 times on the institutional tranche.

IPO activity looks set to continue, with further IPOs in the pipeline in the UAE. But the reduction in the oil price has seen shares on regional stock exchanges tumble, which is likely to result in a number of anticipated IPOs being postponed.

Sub-Saharan Africa

A growing focus on consumer goods and food

Deal activity in Africa in 2014 comfortably exceeded levels seen last year, with both values and volumes growing, and with the continent's two largest economies, Nigeria and South Africa, the busiest markets for transactions.

But the most notable trend during the year was a growing shift from traditional areas of international investment – such as telecoms, financial services and natural resources – to deals focused on areas such as consumer goods and food.

That is not surprising, given continued strong economic growth across the region, with the IMF forecasting that Sub-Saharan Africa will grow by 5% in 2015, and increasingly confident predictions that consumer spending will double during this decade as the middle class expands.

A standout deal in Q4 in this sector saw Steinhoff, the South African discount furniture retailer, diversify into clothing with the USD5.7bn acquisition of Pepkor from a collection of owners including the PE fund Brait. The decision by SABMiller and Coca-Cola to merge their non-alcoholic drink bottling businesses in southern and eastern Africa is another deal driven by the desire to tap growing consumer spending, and Yıldız Holding, the new Turkish owner of United Biscuits, has targeted Africa as a key growth market.

Traditional areas of investment still attract interest. Communications remains busy, particularly in the telecom infrastructure sector. Q4 saw the close of a USD2.6bn equity-raising exercise by IHS, which has done a raft of telecom towers deals this year. This is the biggest equity raise for an African corporate since the financial crisis.

Energy and natural resources remain a focus too, although lower commodity prices have put a temporary dampener on some, but not all, deals. Mitsui, the Japanese trading house, for instance, is investing nearly USD1bn in the Mozambique coal interests of Vale, the Brazilian mining group, and its planned Nacala rail and port development.

We are also seeing growing activity by PE funds in the region. Significantly, Carlyle completed its first deals in both Nigeria and South Africa in the quarter – buying an 18% stake in the Nigerian lender Diamond Bank and the vehicle parts group TiAuto. Earlier in the year, it created a significant Sub-Saharan investment fund, suggesting that it had a good pipeline of deals focused on consumer markets.

Ebola remains a major constraint in the three countries most affected, but it does not seem to be affecting investor sentiment elsewhere. Presidential elections in Nigeria in February 2015 could temporarily slow activity there. But across the continent, the biggest constraint is, perhaps, a growing body of finance chasing a relative scarcity of assets.

India

Optimism on the rise

Transactions in India ended the year on an upward trend, following several years of much quieter activity. Although growth of completed deals has been steady rather than spectacular, the figures belie a sense of growing optimism in the market and, thanks to this improving market sentiment, we expect 2015 to be significantly busier.

We are seeing a strong pipeline of prospective deals building up across sectors, bringing pharmaceuticals, healthcare, consumer goods and IT particularly to the fore. The capital markets are also getting busy and a raft of IPOs look likely to go ahead in the first half of 2015.

After years of coalition politics, which has tended to lead to policy paralysis, the arrival of a stable majority government following May's landslide election of Narendra Modi is the main reason for the sense of growing confidence among investors.

The new government has been slower to announce concrete policy initiatives than many had hoped, but it is making all the right noises, not least in promising to simplify key economic laws. Tax reforms are also on the horizon and they should assuage the fears of foreign investors whose deal structures have, in the past, fallen foul or suffered uncertainty under the current tax regime.

We should see more tangible evidence of the new government's intentions in the run-up to the annual budget in February.

The TMT sector was busy in Q4, and, as in other sectors, we are seeing growing activity from Japanese investors here, amid suggestions that a significant corridor of investment is opening up between the two countries. The U.S. also remains an important source of investment.

But the standout deals of Q4 were in banking and energy. The quarter saw the USD2.6bn merger of Kotak Mahindra and ING Vysya banks, one of India's biggest ever banking deals. JSW Energy also agreed to buy two hydroelectric power plants from Jaiprakash Power Ventures for USD1.6bn.

While inbound investment remains active, the number and value of outbound deals have slowed significantly. It remains to be seen if this will improve in the year ahead.

Asia Pacific

A tale of two halves

For most of the Asia Pacific region, with the notable exception of Greater China, the recovery in M&A transactions is progressing more slowly than in other, more buoyant, markets.

While the first half of the year did see an encouraging spike in deals, growth slowed as the year went on. Though there was a total of 431 deals worth USD255bn in 2014, compared with 408 worth USD217bn in 2013, that represents a rate of growth well below the global average. Q4 was also noticeably quieter than the same period of 2013.

Sharply lower oil and commodity prices have undoubtedly played a part in this – energy and natural resources have, for many years, been a key driver of transactions in the region. The Hong Kong protests have also had a dampening effect, persuading a number of wary inbound investors to shelve or delay planned deals.

For much of the year, there has been a relative dearth of U.S. and European investors targeting the region, although Q4 did see some interesting transactions, including the acquisition of Vietnamese snack manufacturer Kinh Do by Mondelēz and PE fund KKR's first investment in Australia, where it paid USD750m to acquire Orica's chemical division. The majority of the cross-border activity we have seen this year has been intra-regional, dominated by Japanese, South Korean and Chinese investors.

Activity in Australia was less busy than expected at the start of the year. The IPO market has remained strong, and often is the exit route of choice for PE funds rather than disposals.

2015 should see a pick-up in activity, however, particularly in infrastructure, as an extensive privatisation programme gets underway. If the governments of New South Wales and Queensland get re-elected, as expected, electricity networks are expected to be first on the block, with more to follow.

As international investors gear up for that process, it was significant that Q4 saw the first major Chinese investment in Australian infrastructure, with CCCC paying USD950m to buy the John Holland contracting division of Leighton Holdings. There is a wide expectation that more Chinese money will flow into the sector.

The end of 2015 has been set as the date for ASEAN countries to become a more integrated economic union, although some of the more emerging countries have longer to meet the convergence criteria. In reality, most of the members will achieve paper rather than real compliance – many cannot yet, politically, relax rules on foreign ownership and freer movement of workers.

However, international and regional investors are thinking more in terms of this as one region, as evidenced by the increasing numbers of companies establishing regional offices in ASEAN locations, primarily in Singapore. This is particularly evident for Japanese trading and industrial companies, which are one of the most significant ASEAN investors.

One other noticeable growing trend is the increasing amount of intra-ASEAN investment from the more developed ASEAN member states – or those with active sovereign wealth funds, such as Singapore and Malaysia – and from the bigger Thai, Philippine and Indonesian companies. We are also seeing a trickle of outbound Vietnamese investment, although Vietnam remains primarily an inbound destination, as do Myanmar and countries in Indochina.

In clear contrast, China continues to motor ahead, with the value of transactions up from USD179bn to almost USD276bn during the year. Domestic deals continue to dominate, but we are also seeing a growing number of adventurous outbound transactions and there is growth in inbound deals, too.

Energy and natural resources continue to be a driver for outbound deals, but Q4 also saw deals in TMT, financial services, transport and retail. The leisure sector also saw Jin Jiang successfully outbid Accor to buy a chain of French budget hotels from Starwood Capital for an estimated USD1.2bn, reflecting Chinese companies' growing interest in European assets across numerous sectors including banking and airports.

Another lively sector within China is food, notably the dairy industry. Both Danone of France and FrieslandCampina of the Netherlands made investments in Chinese dairy companies during Q4, to address the infant formula milk market, and Chinese dairy producers are also said to be scouting for outbound deals.

Sector insights

The life sciences and TMT sectors continue to be the powerhouses of deal growth, and there is every sign this will continue. By contrast, financial services and mining remain in the doldrums.

Consumer

Confidence (un)certainty?

The past year has seen a strong recovery in consumer transactions, with both value and volume at their highest since 2008. Yet, after a flood of deals in the first three quarters, the year ended more quietly and Q4 was actually slower than the same period in 2013.

Deals get done in this sector when consumer confidence is expected to be on the rise – the prevailing mood for most of 2014. But with several distractions coming into play later in 2014 – the U.S. midterms, the prospect of UK elections and growing talk of rising bank rates – sentiment has gone off the boil.

Nevertheless, there were some significant deals in Q4. The most notable, perhaps, was the sale of United Biscuits to the Turkish food group Yıldız Holding for an estimated GBP2bn. This marked the eventual exit by Blackstone and PAI Partners from an asset acquired at the height of the boom in 2006 and followed earlier thwarted disposal attempts, not least to Bright Food of China in 2010.

More importantly, it underscores a continuing theme in recent years of non-Western acquirers seeking heritage Western brands that they intend to exploit more fully in developing markets. In Yıldız's case, the aim is to tap into expanding consumer markets in Africa. Similar motivations lay behind Suntory's acquisition of Ribena and Lucozade from GSK, Bright Food's purchase of Weetabix, and Mizkan's purchase of Premier Foods' pickles business.

Activity in developing markets has declined recently due to slowing growth, but strategic deals are still happening. The decision by Coca-Cola and SABMiller to combine their non-alcoholic drink bottling operations in 12 African countries is a case in point. Coca-Cola hopes to build on the brewer's strong African roots to cement its position in the continent, while SABMiller is looking to hedge its exposure to stagnating African beer volumes. Similarly, the USD370m acquisition by Mondelēz of 80% of Vietnamese snack manufacturer Kinh Do provides a step change to Mondelēz's market penetration potential. China is also worthy of a specific mention, due to the large volume of Chinese consumer deals in the last year – multinational consumer companies continue to look to capitalise on the fast-growing middle class in China.

There is strong potential in 2015 for a few transformational deals and a number of material transactions, both in developed and developing markets, as groups reshape to a post-recession era and seek out growth. However, the number and success of such deals depends, as ever, on macroeconomic tailwinds and the expectation of rising consumer confidence, both of which may take time to develop.

Financial services

A gloomy outlook

Financial services transactions remain in a trough which deepened as 2014 progressed. That reflects where institutions are in terms of their continued efforts to sort out problems exposed during and since the financial crisis, but also the sector's particular vulnerability to macroeconomic trends.

With so many legacy issues still being addressed, 2014 was never going to be the busiest year for deals in the sector – institutions, by and large, are concentrating on getting their houses in order and simply are not focused on doing big strategic deals at the moment.

For all that, the year got off to a relatively brisk start at a time of growing economic confidence, and with equity markets in a buoyant mood. That sentiment worsened as the year progressed and Q4 saw the value and volume of deals decline dramatically, with just 47 deals worth a total of USD41bn this time, compared with 82 deals worth a total of USD74bn in Q4 2013. For the year as a whole, the number of deals was up slightly, although values declined from USD224bn to USD206bn, and it looks unlikely that we will see any pick-up from these low levels of activity in 2015.

Despite the general dearth of strategic deals, Q4 did see one that fits that bracket –

Aviva's GBP5.6bn acquisition of Friends Life announced in December, the largest deal in the insurance industry for 15 years. It accelerates Aviva's balance sheet transformation of recent years and creates greater financial flexibility for growth.

With so many questions still surrounding banking regulation in the Eurozone, it is, perhaps, surprising to see Chinese investors continue to pursue European targets. But Q4 did see Haitong International Securities Group Limited pay EUR379m to acquire Banco Espírito Santo di Investimento, the Portuguese investment bank – a sign that that interest remains real.

For many banks and insurers, though, the emphasis remains squarely on raising new capital to meet tougher regulatory thresholds. Sometimes that involves direct capital raising projects; sometimes it involves disposals of non-core assets, which are, of course, trickier to complete.

Aegon, for example, made two in the quarter, including the sale of its Canadian insurance operations to Wilton Re of the U.S. for EUR423m. ING continues to reorganise its global operations, agreeing a USD2.5bn merger between ING Vysya Bank and Kotak Mahindra Bank, in what is one of India's biggest ever banking deals.

While institutions have done a great deal of work to sort out legacy problems, there still remains more to do and this should continue to drive transactions in the months ahead. Bolder initiatives will probably have to wait for a later date.

Infrastructure and utilities

Plenty of capital; too few assets

Throughout the year, the sector has struggled with a now familiar conundrum. Infrastructure is attracting growing interests from an increasingly diverse range of investors, but there are too few projects to satisfy demand. The result is a mismatch – with too much capital chasing too few assets.

That, above all, is the probable explanation for the static level of transactions in 2014. We foresee an uptick in 2015, with a number of deals in the pipeline for Q1.

That is certainly true of Europe, although activity does seem to be building in the U.S. and Australia, which – thanks to a significant privatisation programme taking in electricity networks, power stations, ports and roads – could be the place to be for international funds in 2015.

With competition for a finite supply of assets intense, dedicated infrastructure funds are beginning to look at a wider range of potential opportunities, stretching the definition of infrastructure beyond its traditional boundaries and looking to source bilateral opportunities. That means looking at non-regulated sectors, such as transportation (including ports) and freight, which still offer some of the certainties of regulated industries – notably a resilience to the economic cycle and a guarantee of stable, long-term returns.

When deals emerge, they continue to attract huge interest from international investors. The sale of Fortum's Swedish power grid is said to have attracted bids from three rival consortia, comprised of some of the biggest infrastructure investors in the market, and the sale of Swedegas by EQT is also expected to attract multiple bidders of a similar calibre. Both competitive auction processes typify the current state of the market – a wall of funding with too few opportunities.

Airports remain a hot asset class, particularly in Europe. The privatisation of Toulouse airport has attracted bids from a Chinese/Canadian consortium, IFM's offer for a minority stake in Vienna airport has been approved, and a preferred bidder is due to be announced imminently for the sale of a 49.9% stake in F2i Aeroporti, which holds stakes in the operators of Milan, Naples and Turin Airports. Meanwhile, Ferrovial and Macquarie have completed the GBP1.08bn acquisition of Aberdeen, Glasgow and Southampton airports from Heathrow Airport Holdings, which has disposed of six airports since 2009 and is now concentrating solely on developing Heathrow Airport.

Privatisations will continue to be a driver of deals in the year ahead, and not just in Australia. İGDAŞ, the gas distribution network in Istanbul, is up for sale, the UK government is selling its stake in Eurostar and we are seeing a growing number of quasi-privatisations through public private partnership deals in the U.S.

Life sciences

Lifted by inversions and precision deals

2014 has been a spectacular year for life sciences transactions, with the value of deals, at USD530bn, more than double the previous high in 2009, when values were at just under USD216bn. That growth has come on the back of several trends, not least tax inversion deals, precision M&A and strategic disposals of non-core assets.

The biggest deal of the quarter – and probably the year – was Allergan's acceptance of the USD66bn offer by Actavis, an agreement which saw Valeant Pharmaceuticals bowing out of the bidding after half a year of acrimonious pursuit.

Valeant had linked with activist hedge fund Pershing Square to put Allergan in play, and there are now rumours that it will target Zoetis, where Pershing also has an investment. Part of the logic for the successful Allergan/Actavis deal is tax. Actavis achieved an inversion last year when it bought Warner Chilcott and the suggestion is that, through its combination with Actavis, Allergan's tax bill could also now be significantly reduced.

Interest in Allergan, the manufacturers of Botox®, is part of a frenzy of activity in the biotech market. Biotech companies have accounted for the majority of IPOs in the life sciences sector in 2014. Circassia's GBP200m IPO was the most talked about in Europe, and Juno Therapeutics (now preparing its IPO) is attracting similar levels of excitement in the U.S.

Medtech has been a hotspot for transactions for some time, but 2014 stands out as the year when several big players caught M&A fever. Medtronic's acquisition of Covidien was the biggest deal in this area and it is now inching towards completion, having been cleared by antitrust regulators in Europe, China and South Korea. CareFusion has now also agreed to a USD11.9bn bid from Becton Dickinson & Co – the second biggest deal of Q4.

The Covidien deal was also structured as an inversion and there were fears that it would collapse after the U.S. Treasury's move to crack down on such deals, just as the AbbVie/Shire merger did. While we will see fewer inversions in future, all the signs are that the Covidien deal will go ahead.

Kimberly-Clark's decision to spin off its healthcare businesses into a new publicly traded company – Halyard Health – is the latest example of the trend towards greater strategic focus, either through precision M&A or disposals of non-core assets.

As we predicted earlier in the year, PE funds are making their presence increasingly felt in the sector and we have seen a raft of deals in Q4. These included EQT and Santo Holding agreeing to buy Siemens Audiology Solutions from Siemens, the acquisition of Kremers Urban Pharmaceuticals by Avista Capital Partners and Advent, and Formation Capital and Safanad acquiring Extendicare Health Services. Baring Private Equity Asia, the Hong Kong PE fund, has also agreed to acquire Bushu Pharmaceuticals, the Japanese manufacturer of products for clinical trials, for USD665m.

Growing confidence in rising levels of R&D and an increased number of drug approvals (the U.S. Food and Drug Administration has approved 35 drugs this year, compared to 27 in 2013) could have an impact on future M&A trends. Historically, M&A has always been a route to shoring up R&D pipelines, but direct investment in R&D seems to be bouncing back. Nevertheless, the huge time and cost involved in bringing a new product to market suggests transactions will continue to be important.

Mining

Rock bottom

The decline in mining transactions continued throughout 2014 as most players in the industry, often egged on by investors, remained focused on controlling costs rather than doing deals, against a background of rapidly declining commodity prices.

Q4 saw just 11 transactions, compared with 20 in the same period last year. For the year as a whole, volumes were down from 77 deals to 66 and values declined from USD46.2bn to USD38.4bn.

An exceptionally quiet year has seen most of the industry's major players, with the exception of Glencore, showing a clear aversion to doing deals. Indeed, BHP Billiton is in the midst of spinning off assets into a new metals and mining company so that it can focus on its core operations. Anglo American's review of its asset portfolio continues, with disposals likely to follow, and Rio Tinto is focused on driving down costs.

Vale, the Brazilian group, continues to be active, for instance securing a USD1bn investment from Mitsui, the Japanese trading house, in its Mozambique coal interests and its planned Nacala rail and port development. Glencore continues to contemplate big deals, although its approach to Rio with merger proposals to create a USD160bn mining and commodities giant was sharply rebuffed and is now off the cards, under UK takeover rules, for the next six months.

Another significant deal in Q4 saw Lundin of Canada buy a controlling stake in the Candelaria copper mine in Chile from Freeman-McMoRan for USD1.8bn. Chinese investors also continue to be on the lookout for mining assets, although the level of activity is considerably lower than four or five years ago.

The question is whether current low commodity prices will continue to prevail and, if they do (as looks likely), whether that will force some in the industry into making distressed disposals. If so, it could be an opportunity for rivals to pick up assets at reduced prices.

Key resource-dependent economies face other issues too, notably South Africa, where power disruptions and rumbling labour issues continue to be a problem. As a result, Anglo American is looking to reduce its exposure to a market that BHP Billiton has already all but exited.

So the outlook for 2015 looks to be fairly bleak, with more of the same – companies

hunkering down and, under pressure from investors, steering clear of doing deals. The open question is whether market participants will be fired into activity as a result of distressed situations.

Private equity

Buyouts slowly revive

While PE activity has not yet returned to the heady levels of 2007, there was considerable growth in transactions in 2014. Q4 was quieter than the same period of 2013, but for the year as a whole, we saw 1,050 deals (compared with 747 in 2013) worth some GBP452bn in total.

There has been a consistent theme in the sector since the crash. As PE activity has slowly revived, funds have been much more active on the sell side and looking to make exits.

In truth, they remain largely in exit mode, ahead of new fundraising, although this year has seen total and secondary buyouts increasing steadily and, in some cases, those deals are substantial, as we saw in Q4 with BC Partners' USD8.7bn acquisition of PetSmart, the first big-ticket PE acquisition in the U.S. for some time.

Some sectors, notably life sciences, are now attracting far greater attention from PE funds, as we saw with the EQT/Santo Holding acquisition of the Siemens hearing aid business and the Waterland/Medical Properties Trust buyout of Median Kliniken from Advent International and Marcol, to name but two. Internationally, we are also seeing an increase in PE activity, backed by substantial targeted funds, in key emerging markets, not least in Africa and Asia, although China's PE market remains in development, where partial rather than full buyouts still predominate.

Although the traditional challenges to PE activity in South East Asia still prevail (notably: finding the right opportunities; competition; and mismatched price expectations), PE activity is increasing. On the buy side, retail/consumer- and TMT-driven deals are most common. Singapore continues to attract PE funds which are establishing regional hub offices here. Several funds chalked up 'wins' in 2014, including KKR (Goodpack) and Abraaj (Wine Connection), and regional players, such as Navis and Northstar, continue to perform well.

There is an encouraging pipeline of new buy-side deals building up, particularly in the retail and TMT sectors, which bodes well for 2015. In the UK, we expect to see a sharp increase in activity in Q1 2015 as funds try to complete transactions ahead of May's general election, which might lead to a second-quarter lull.

The high price of assets remains a significant constraint, however. With auctions now attracting significant interest from strategic buyers often willing to pay a premium for sought-after assets, funds find themselves at a disadvantage and likely, more often than not, to walk away. The clear preference is for proprietary bilateral deals.

On the sell side, we are seeing some funds retreat from the IPO market in favour of direct disposals. In the UK, Old Mutual's acquisition of Quilter Cheviot from Bridgepoint for GBP585m is an example of a mooted IPO that turned into a sale. By contrast, IPOs remain the favoured exit route in Australia.

Telecoms, media and technology

Convergence – a must-have?

In a year of transformational strategic deals – and one in which the TMT sector has been such a powerful driving force – it is appropriate that it should end with news of one which could really set the pace for future transactions.

The planned GBP12.5bn tie-up between BT, the UK's biggest fixed-line operator, and EE, the biggest mobile provider, would certainly shake up the UK telecoms market, perhaps prompting O2 – which started life in BT, but is now owned by Telefónica – to consider a merger with another UK operator, or a tie-up with a UK provider of fixed line and content.

But the ramifications go beyond the UK, and have relevance for convergence in markets around the world at a time when consumers want access to high-quality content on whatever device they have to hand, whether smartphone, tablet, desktop or TV.

With systems of delivery fragmenting, the deal is predicated on the attractiveness for operators of the 'quad-play' paradigm. Those not able to offer content in all the ways consumers want it delivered – mobile-only operators, for instance – could find themselves at a disadvantage and (if integration becomes the paradigm) vulnerable to takeover.

Regulatory issues come into play, too, although different to the issues seen in 2014 with the clearance of in-country mobile consolidations in Germany, Austria and the Republic of Ireland. The closer comparison is with the Vodafone/Kabel Deutschland deal, cleared by the European Commission. Nevertheless, some antitrust remedies might be sought.

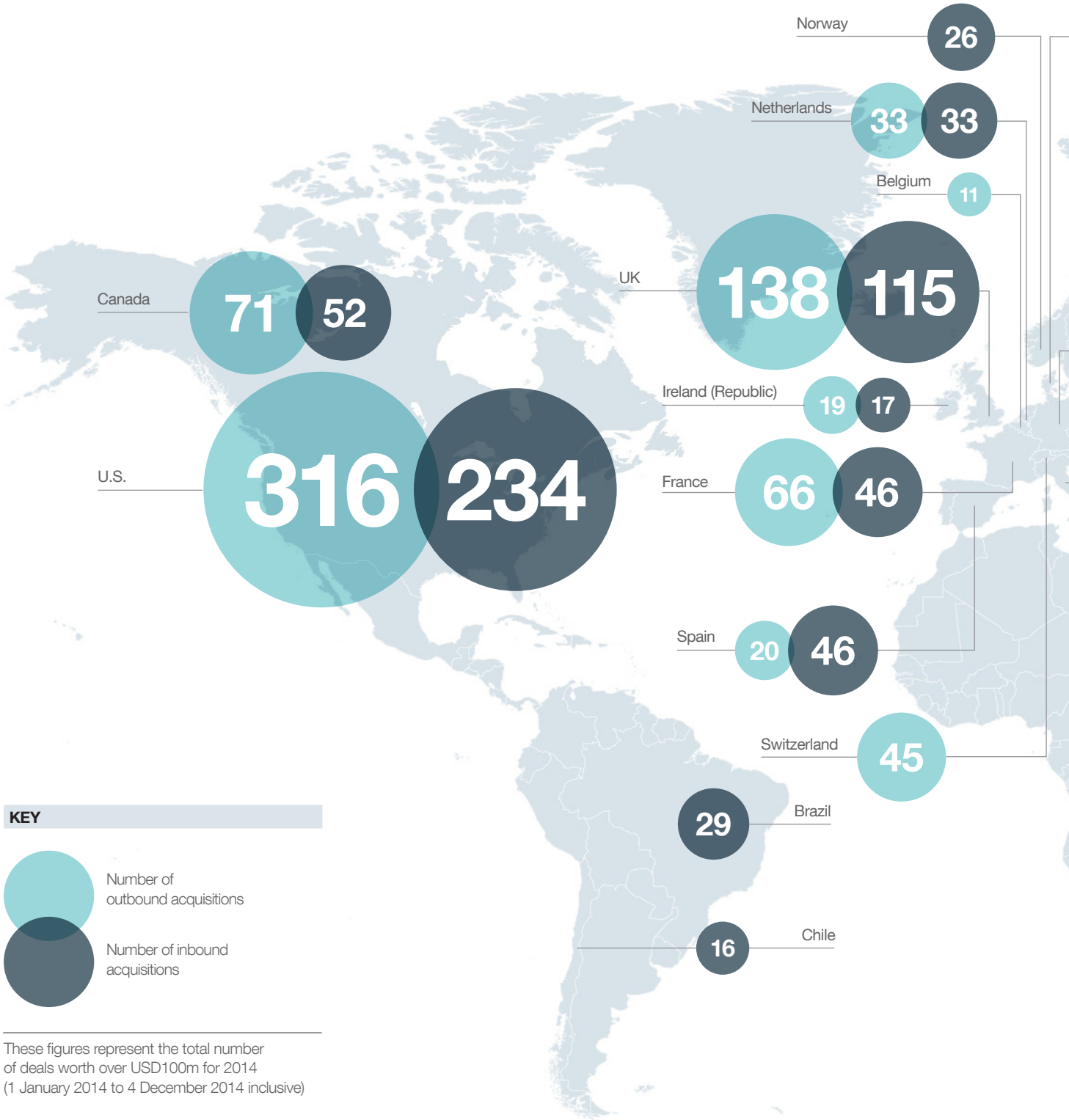
As delivery systems fragment, many content creators are seeing the benefit of joining forces, as we saw with the Apollo Global Management and 21st Century Fox joint venture, bringing Endemol, Shine Group and CORE Media Group together. The transaction underlines the growing primacy of content.

Old-tech companies continue to divest non-core businesses. Hewlett-Packard announced in Q4 that it is splitting its PC and printer business from its enterprise operations, a move expected to prompt further consolidation in these two areas. In contrast, new-tech companies like Google continue to sprawl into often tangential areas.

Another reason why 2015 should remain busy is the growing trend for U.S. tech companies to make outbound acquisitions in Europe and Asia. Aided by the availability of cheap debt and a strong dollar, these deals are often driven by a desire to acquire talent.

A global snapshot

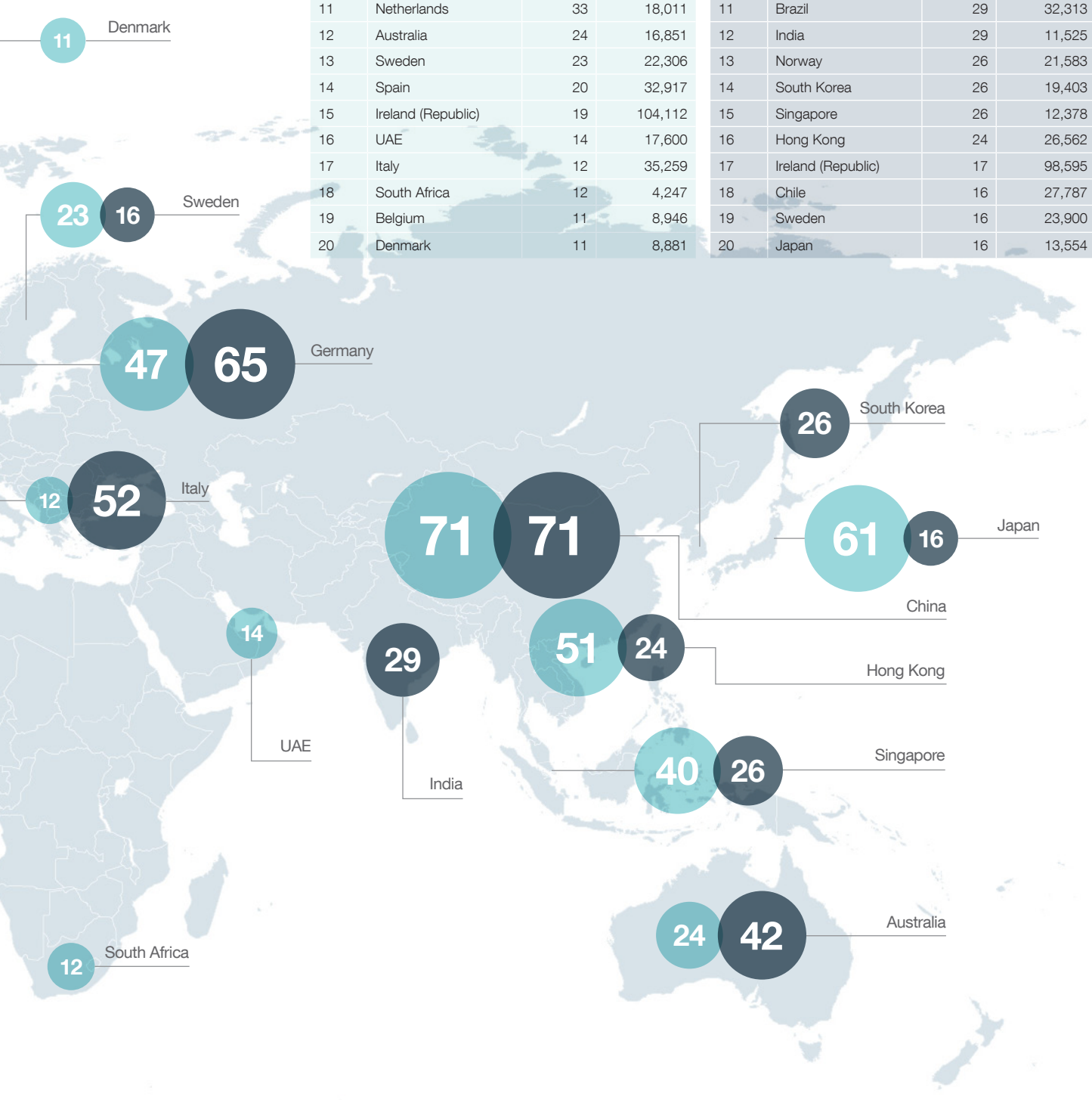
Top 20 global outbound acquirers and inbound target markets



These figures represent the total number of deals worth over USD100m for 2014 (1 January 2014 to 4 December 2014 inclusive)

Volume of outbound acquisitions			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	316	390,980
2	UK	138	110,783
3	Canada	71	113,089
4	China	71	53,164
5	France	66	41,931
6	Japan	61	47,564
7	Hong Kong	51	66,102
8	Germany	47	108,558
9	Switzerland	45	89,150
10	Singapore	40	31,724
11	Netherlands	33	18,011
12	Australia	24	16,851
13	Sweden	23	22,306
14	Spain	20	32,917
15	Ireland (Republic)	19	104,112
16	UAE	14	17,600
17	Italy	12	35,259
18	South Africa	12	4,247
19	Belgium	11	8,946
20	Denmark	11	8,881

Volume of inbound acquisitions			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	234	402,535
2	UK	115	138,573
3	China	71	65,280
4	Germany	65	58,497
5	Canada	52	37,275
6	Italy	52	26,921
7	France	46	111,498
8	Spain	46	33,472
9	Australia	42	45,312
10	Netherlands	33	35,136
11	Brazil	29	32,313
12	India	29	11,525
13	Norway	26	21,583
14	South Korea	26	19,403
15	Singapore	26	12,378
16	Hong Kong	24	26,562
17	Ireland (Republic)	17	98,595
18	Chile	16	27,787
19	Sweden	16	23,900
20	Japan	16	13,554

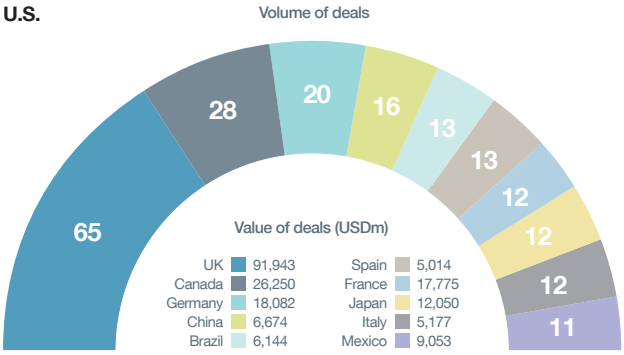


A global snapshot

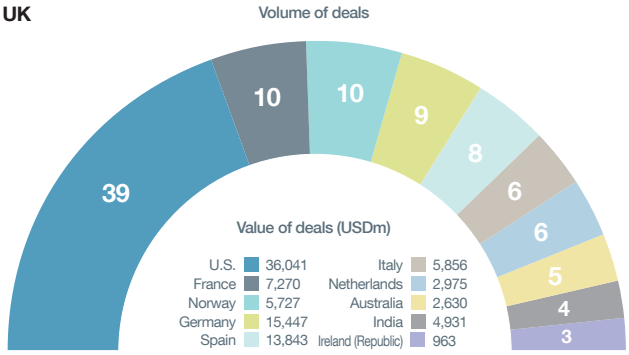
Top target markets for the world's largest acquiring countries

These charts reveal where the world's largest acquiring countries are carrying out deals. For each of the ten leading global outbound acquirers, the data ranks the top ten overseas target markets for M&A by volume of deals.

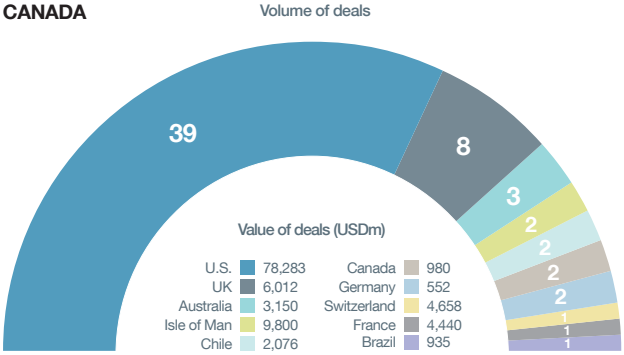
U.S.



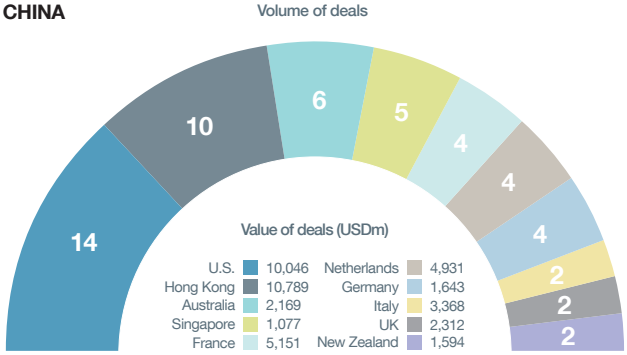
UK



CANADA

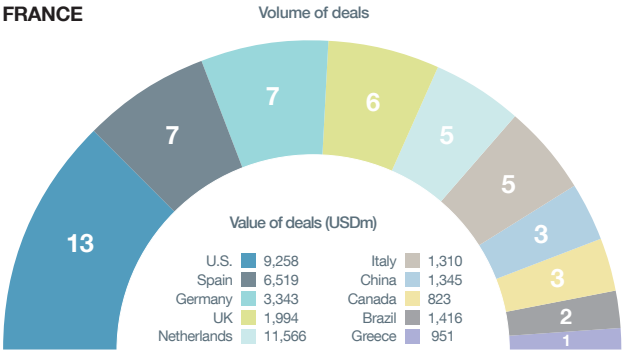


CHINA

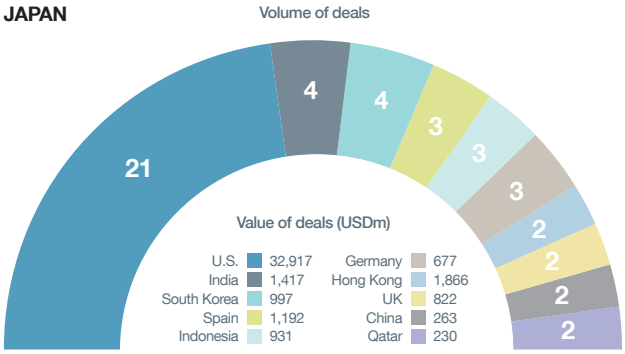


*These numbers represent deals worth over USD100m and span 1 January 2014 to 4 December 2014 inclusive

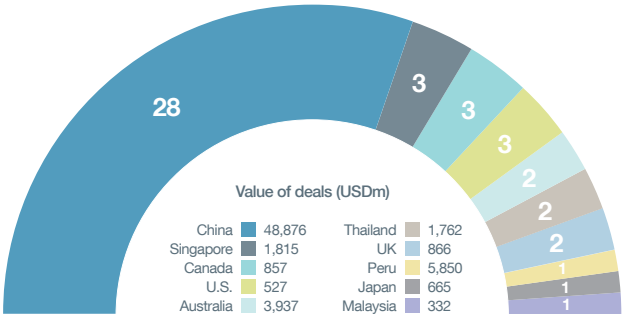
FRANCE



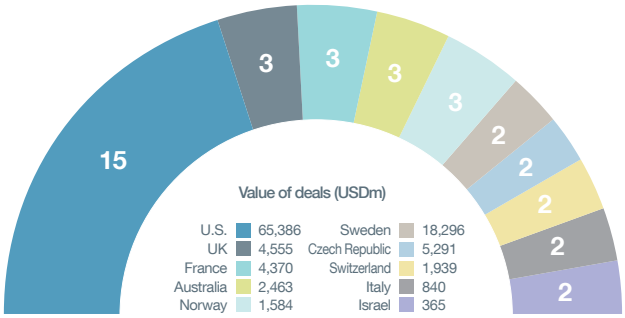
JAPAN



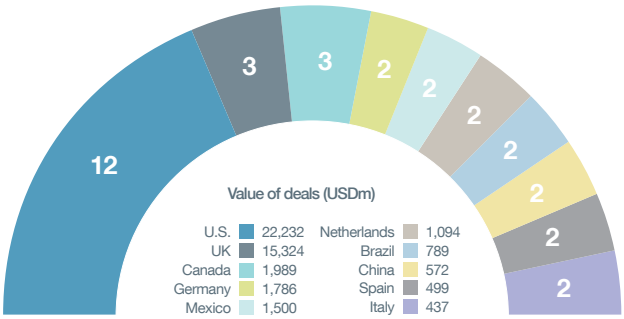
HONG KONG



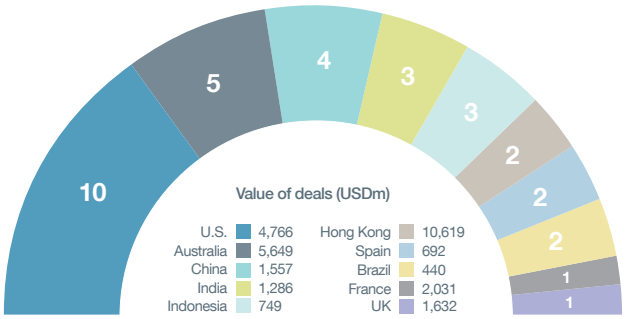
GERMANY



SWITZERLAND



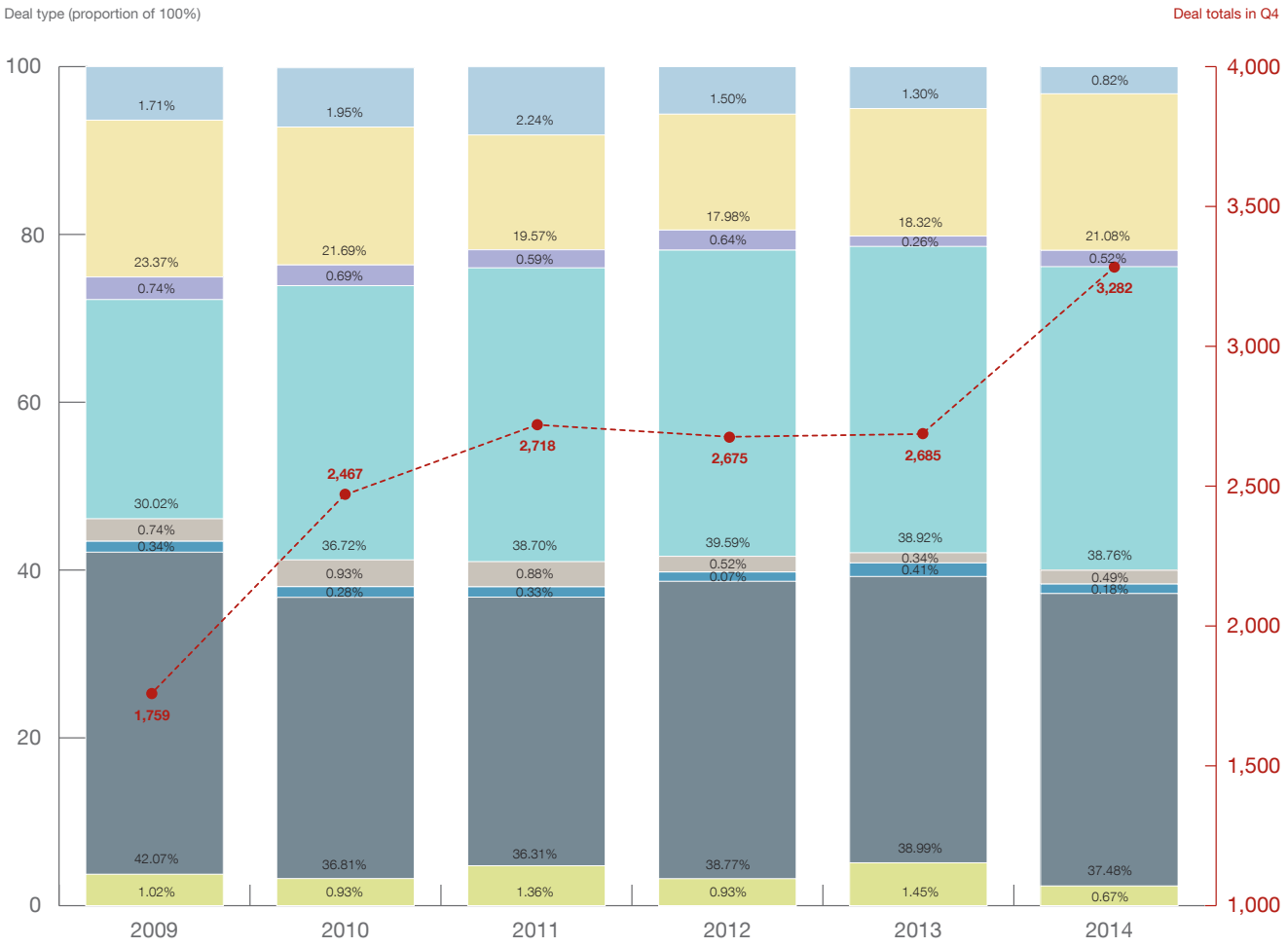
SINGAPORE



Global deal types: 2009-2014

KEY

- Take private
- Public recommended acquisition
- Public hostile acquisition
- Other private M&A
- Merger
- Joint venture
- Divestment
- Demerger



The diagram above represents the breakdown of the total number of deals from 2009 to 2014.

Definitions

Divestment

A disposal where the seller is a corporate selling a controlling interest (>30%) in one or more of its businesses. This excludes PE exits and disposals made by high net worth private individuals and families. Includes government-related sales and disposals made by non-PE financial investors, such as investment holding companies.

Cross-border

A transaction that is conducted across national boundaries. The deal involves parties from at least two different countries.

Demerger

A transaction where a company spins off one of its subsidiaries, resulting in the creation of a separate listed business independent from the activities or influence of the former parent. The shareholders ultimately hold shares in each company and neither the former parent company nor shareholders receive any cash as a result of the deal (as opposed to a flotation/IPO).

Domestic

A transaction conducted within a national boundary. The deal involves parties that are incumbent nationals of that country.

Insolvency-related

A transaction where a company has filed for bankruptcy or is subject to another insolvency process or procedure, and sells off part or all of its assets to generate the cash necessary to pay creditors.

Joint venture

A transaction that involves the pooling of assets between different companies, whereby the ownership of the new joint venture is shared between the parent companies involved. Does not include so-called joint ventures where a company's sole contribution is cash rather than assets.

Merger

A transaction that involves the combination of two or more separate businesses into one, with broadly equal holding and governance rights assigned to the respective shareholders of each company.

Other private M&A

Acquisitions or disposals not covered by the other classifications. Includes PE exits and disposals made by high net worth individuals and families.

Public recommended acquisition (excl PE-related take privates)

A friendly acquisition where the parties involved reach agreement over the terms of the deal, normally prior to the acquisition being formally announced. The transaction requires approval from either the bidder, target or vendor shareholders in a public forum.

Public hostile acquisition (excl PE-related take privates)

An acquisition of a publicly quoted target where the target management does not recommend the offer within two weeks.

Take privates (hostile and recommended)

An acquisition of a publicly quoted company by financial investors such as PE houses or venture capital firms (as opposed to a trade buyer). The target company is subsequently delisted.

About the research

The underlying data for this research comes from The Mergermarket Group.

– This report only includes deals worth USD100m and over.

– The data contained in the Q4 2014 results spans 1 January 2014 to 4 December 2014 inclusive.

1st for cross-border M&A globally, by volume of deals

Bloomberg Q4 2014

1st for European M&A, by value of deals

Bloomberg Q4 2014

1st for MENA M&A, by volume of deals

Thomson Reuters Q4 2014

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