Winchester Capital
Global Strategic Advisory and Asset Management

M&A Global Market Insight & Trends
Q1 2019

I. GLOBAL M&A ACTIVITY FINISHED STRONG IN 2018

Global M&A activity remained high in 2018, despite the growing political tensions, global market volatility and the uncertainty surrounding Brexit. Total global transaction value in 2018 was $3.55 trillion, a 10% increase over the same time period in 2017. The total volume of trades in 2018 was over 53,000 transactions, which is comparable to the volume in 2017.

The most active regions in terms of total deal value and volume in 2018 were North America and Europe, accounting for 46% and 28% of the global transaction deal value, respectively. When combined, these markets represent nearly 75% of the deal volume globally, an increase of 4% from 2017. Both the North American and European regions experienced an increase in transaction deal value during 2018. North America represented total transaction value of $1.64 trillion in 2018, a 10.1% increase from the 2017 value of $1.49 trillion. Europe reported a 24% increase from $805bn in 2017 to $998bn in 2018. The Asia/Pacific region was the only region to report a decrease in total transaction value in 2018, which reported a -5% decrease from $738bn in 2017 to $704bn in 2018. The largest regions based on deal volume were once again North America and Europe, representing 36% and 34% of the deal volume, respectively.

The uncertainty of Brexit, U.S. – China trade disputes and the U.S. government shutdown has reduced confidence in deal making for early 2019. Large cross border deals in particular could slow due to the impact of trade war and regulations, which have been drivers of deal activity over the past several years.

Chart I: *Global M&A Activity (2015-2018)*

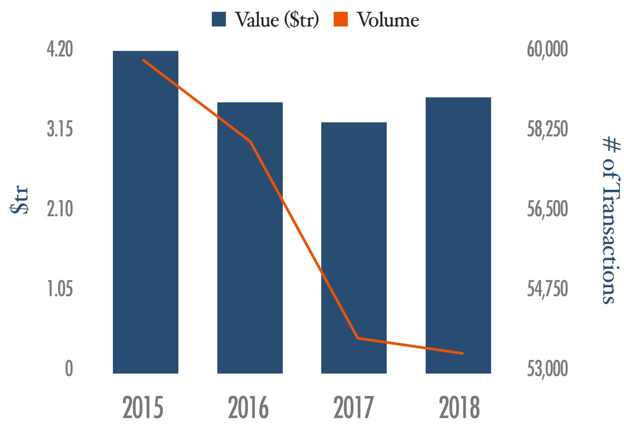
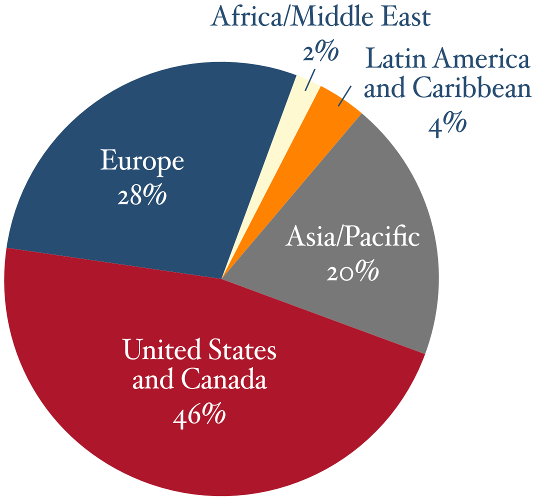


Chart II: *Global M&A Activity by Region (2018)*

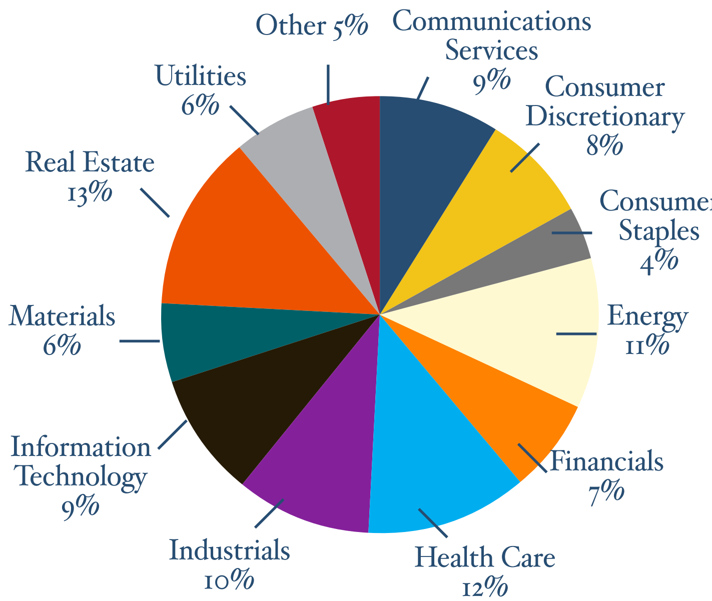


II. MAJOR GLOBAL TRANSACTIONS

Sectors demonstrating the highest international transaction values in 2018 were real estate, healthcare and energy. These sectors have seen a number of high profile acquisitions throughout 2018. The two largest announced transactions of 2018 are both in the healthcare sector. The largest transaction to date is the $80.9bn announced acquisition of Ireland's Shire plc by Japan's Takeda Pharmaceutical. This would represent the largest overseas purchase by any Japanese company in history. The transaction was approved and closed in early January 2019. This transaction will create one of the largest pharmaceutical companies in the world. Recently, Takeda announced the largest single-tranche Japanese corporate bond sale of 500 billion yen ($4.6bn) hybrid notes, in an effort to extend its debt obligations post acquisition.

The second largest announced transaction of 2018 is the $71.0bn merger between the pharmacy benefit manager Express Scripts by health insurance company Cigna Corporation. It was announced in December 2018 that the transaction had received final regulatory approval, and the combined company will generate nearly $150bn estimated revenue for 2018.

Chart III: *Total M&A Transaction Value by Sector (2018)*



The communications services sector has also seen a number of high profile acquisitions in 2018. The largest transaction in this sector was the $69.2bn announced merger of Sprint Corporation (NYSE:S) and T-Mobile US, Inc. (NasdaqGS:TMUS). Hearings are currently being held on Capitol Hill by a U.S. House panel to address how the merger will impact consumers. The largest US/UK transatlantic transaction during 2018 was the $49.6bn acquisition of the British satellite broadcaster Sky plc by US telecommunication conglomerate Comcast Corporation. The acquisition will expand Comcast's global reach by adding an additional 23 million European customers.

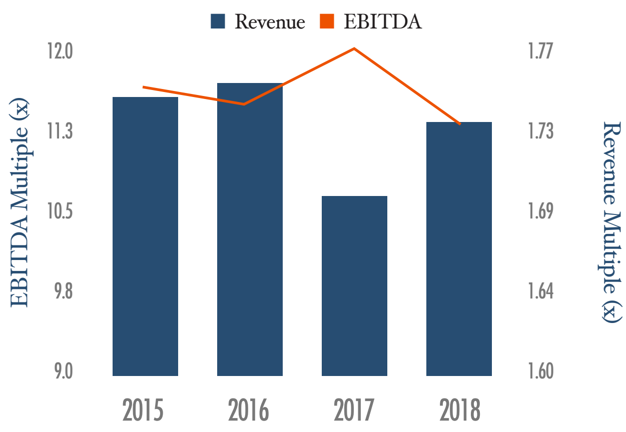
Interestingly, there was only one transaction in the top ten deals that was announced in the fourth quarter of 2018, suggesting that headwinds in the market may be impacting the mega-deals. On October 28th, IBM announced plans to acquire Red Hat in a $35.6bn deal. This would be IBM's largest acquisition and Red Hat, a major distributor of open-source software and technology, would give IBM an immediate source of cloud-based revenue.

Table I: *Top 10 Announced Global M&A Transactions in (2018)*

Announcement	M&A Closed Date	Target	Buyers	Total Transaction Value ($m)	Sector
4/19/2018	01/08/2019	Shire plc	Takeda Pharmaceutical Company Limited (TSE:4502)	80.9	Health Care
3/08/2018	12/20/2018	Express Scripts Holding Company	Cigna Corporation (NYSE:CI)	71.0	Health Care
08/01/2018	10/19/2018	Energy Transfer Operating, L.P.	Energy Transfer LP (NYSE:ET)	69.3	Energy
04/29/2018	-	Sprint Corporation (NYSE:S)	T-Mobile US, Inc. (NasdaqGS:TMUS)	69.2	Communication Services
02/27/2018	10/11/2018	Sky Limited	Comcast Corporation (NasdaqGS:CMCS.A)	49.7	Communication Services
10/28/2018	-	Red Hat, Inc. (NYSE:RHT)	International Business Machines Corporation (NYSE:IBM)	35.7	Information Technology
04/30/2018	10/01/2018	Andeavor	Marathon Petroleum Corporation (NYSE:MPC)	35.5	Energy
05/11/2018	-	EDP - Energias de Portugal, S.A. (ENXTLS:EDP)	China Three Gorges (Europe) S.A.	35.3	Utilities
02/15/2018	09/10/2018	RELX NV	RELX PLC (LSE:REL)	26.2	Industrials
05/09/2018	-	Unitymedia GmbH	Vodafone Group Plc (LSE:VOD) and other subsidiaries	21.8	Communication Services
Total ($m)				**$494.6**	

Trading multiples in 2018 remained consistent with 2017 values. The median EBITDA multiple for all global transactions was 11.3X, an increase of approximately 6% from the 2017 value of 10.6X. Revenue multiples decreased 2% from 1.77X in 2017 to 1.73X in 2018.

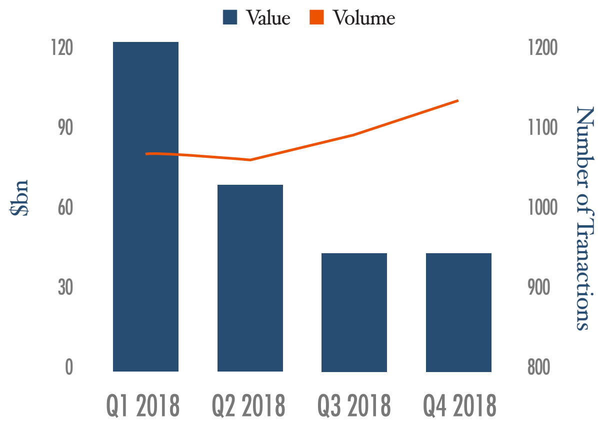
Chart IV: *Global M&A Activity (2015-2018)*



III. IMPACT OF BREXIT ON M&A

Continuing uncertainty over Brexit has softened UK based M&A value in 2018, which has witnessed a steep decline of 53% in the second half of 2018 as the pace becomes slower toward the March 2019 exit date. The total number of transactions increased by 5%, suggesting that the number of mega-deals has decreased in the second half of 2018. In the first half of 2018, 14 deals of more than $2bn were announced, compared to only 7 deals in the second half of 2018. Despite Brexit, BP proceeded with the $10.5bn acquisition of BHP's U.S. based shale assets. Britain represents the world's fifth largest economy and remains an important country for driving M&A activity.

Chart V: *UK M&A Activity (2018)*



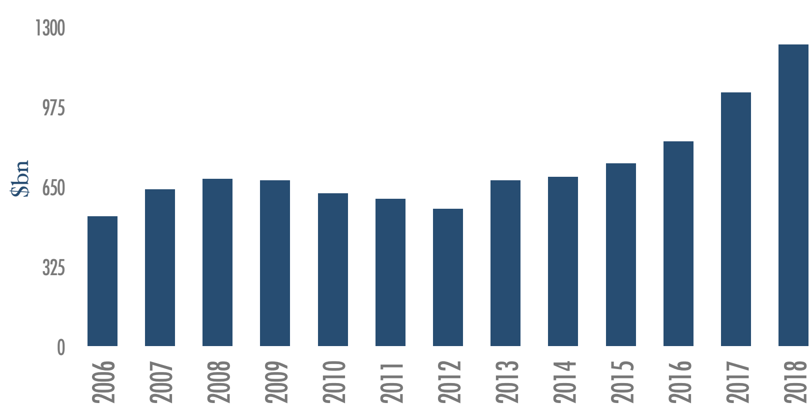
UK Prime Minister Theresa May's Brexit deal was overwhelmingly defeated (432 to 306) in a vote in Parliament in January. Additionally, May narrowly survived a vote of no-confidence the following day by a 325 to 306 margin. With the political uncertainty surrounding Brexit, now more than ever, the role of an experienced boutique investment bank that has experience in the transatlantic and UK markets is vital.

IV. PRIVATE EQUITY INVESTMENTS

Private equity continues to be a driving force in 2018, from both an acquisition and sales perspective. In 2018, private equity firms had an estimated $1.2 trillion in committed and uninvested capital. This is an increase of $187 billion or 18% from the total amount available in 2017. The spike in dry powder has been driven by the increased concentration of capital committed to larger funds. Recent examples include the announced Softbank's $100bn Vison Fund, Carlyle Partners' $18.5bn Fund VII, Hellman & Friedman Capital Partners' $16bn Fund IX and EQT's €10.75 Fund VIII.

Given the amount of PE firms seeking acquisition opportunities and the lifecycle of existing investment holdings, now is a highly attractive time to divest non-core assets or vintage investments. Private equity firms have record amounts of capital that require investment or they will need to return committed capital.

Chart VI: *Private Equity Dry Powder (2006-2018)*



2019 FORECAST AND CONCLUSIONS

Continuing trade tensions and the potential for a global recession may result in slight contraction or limited growth in the global M&A market. Despite these geo-political headwinds, there are a number of positive factors in the market:

- Private equity dry powder (estimated at $1.2 trillion) will continue to increase, with sophisticated investors focused more actively in North America and Western Europe following resiliency in capital markets.
- Financing will continue to be an M&A driver remaining at near record low costs in the UK and the USA. The U.S. Federal Reserve in January opted not to raise interest rates and signaled that it would not increase rates in the short term. Additionally with the uncertainty of Brexit, the Bank of England is unlikely to increase interest rates. The Bank of England has kept rates on hold since the rise to 0.75% in August 2018.
- We expect the stronger momentum in the M&A middle market ($100- $500m) to continue as companies may look to avoid mega-deals due the volatile market factors and instead focus in on more manageable size transactions that have a higher probability of closing.
- Chinese acquisitions of U.S. companies will continue to decline in 2019 until trade war concerns are resolved. Acquisitions of U.S. companies by buyers from China and Hong Kong decreased by 61% in total deal value to $18.9bn in 2017 to $7.4bn in 2018. The current US/China trade relationship will shift the focus of Chinese investment to Europe and other parts of Asia and bring into greater focus the imposition of CFIUS controls for technology based acquisitions by foreign acquirers into the United States.
- The return of US capital markets in January 2019 and the record setting strengthening of the US dollar could result in an increased number of US cross border acquisitions in Europe, which remains depressed.
- The possible end of the USA federal government shutdown coupled with progress on the resolution of the trade dispute with China could provide recovery in Q2 and potentially be supportive of sustained levels of M&A activity.

ABOUT WINCHESTER CAPITAL

Founded in 1986 by the Harriman Family Office, Winchester Capital provides global strategic advisory, research and asset management services. Based in London and adjacent to the Campus of Yale University in Connecticut, USA we focus on strategic M&A in financial services, technology, insurance, hospitality, healthcare and global industrial companies. In 2013, we acquired Paine Webber Capital Inc. from UBS. We have received six industry awards from The M&A Advisor, including the Distinguished Award for International Private Equity Deal of the Year. For further information, please visit our website at www.winchestercapital.com or contact Dr. David Bowen, Managing Director at David.Bowen@Winchestercapital.com.

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