

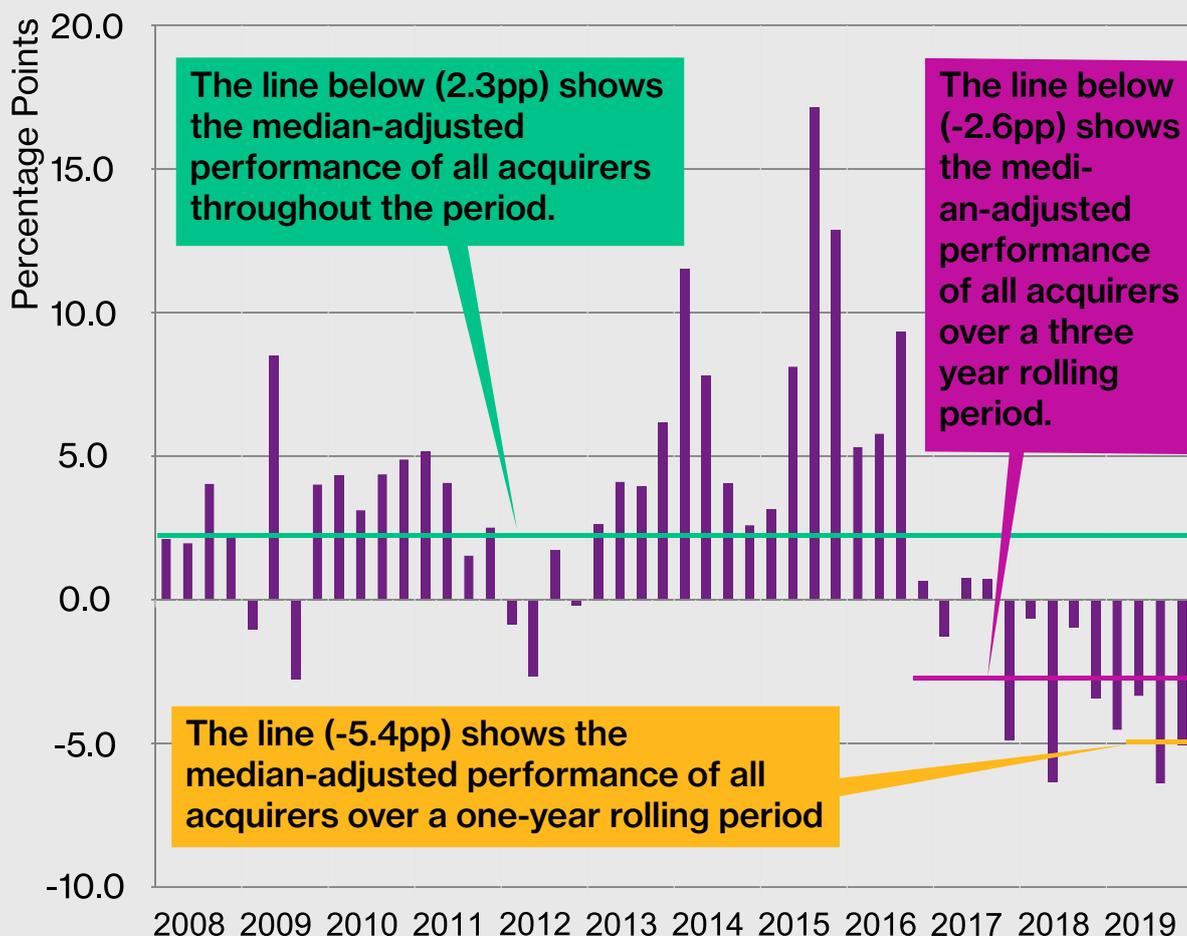


The downward trend of the global M&A market continues

Q4 2019 Quarterly Deal Performance Monitor
and 2020 M&A predictions

Global M&A slowdown to continue in 2020, yet challenging conditions still offer springboard to better deals

Figure 1. M&A – Quarterly deal performance monitor Q4 2019



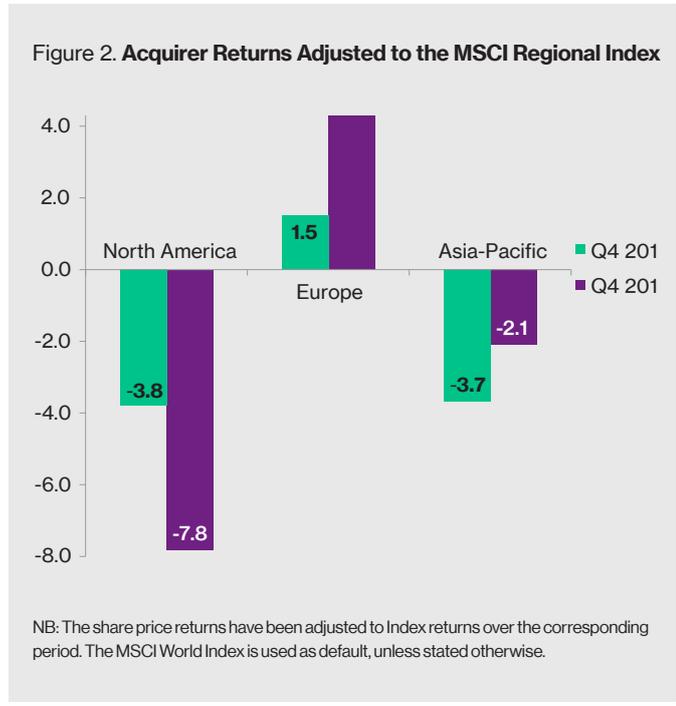
NB: The share price returns have been adjusted to Index returns over the corresponding period. The MSCI World Index is used as default, unless stated otherwise.

A drop in North American deals is expected to act as a drag on global M&A activity and points to a more selective approach to acquisitions.

The global M&A market, with performance in steady decline since its peak in 2015, is forecast to continue to struggle to add value in 2020, based on long-term data compiled by

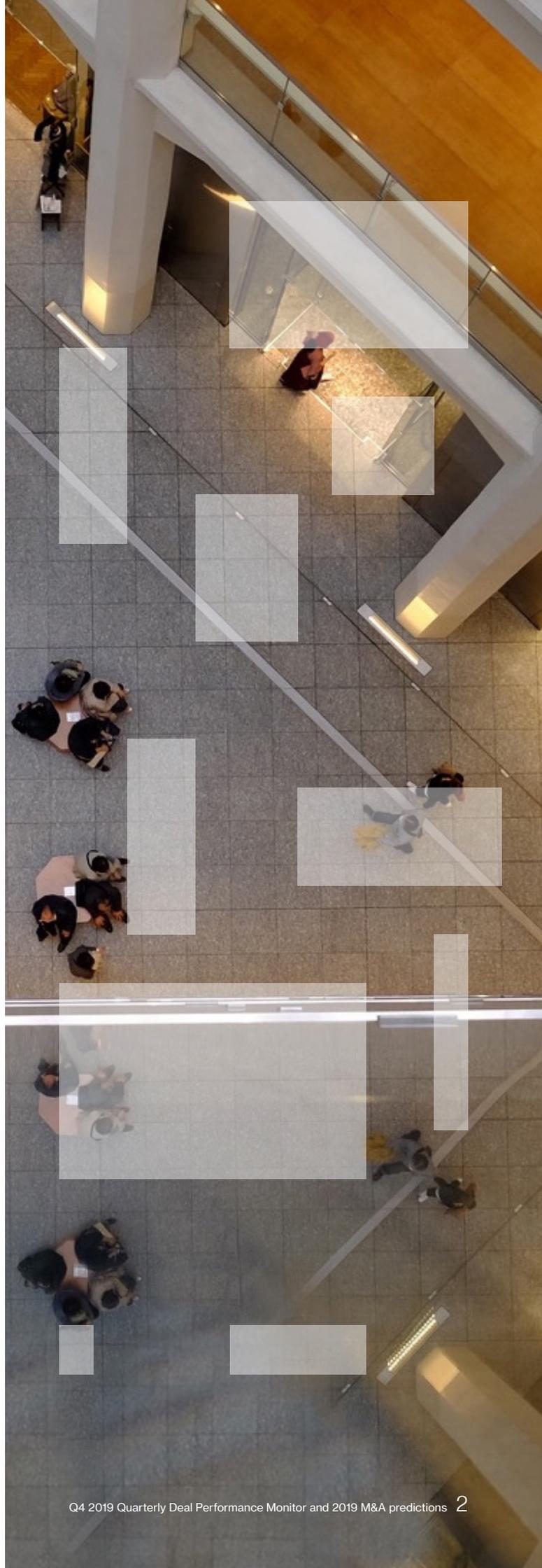
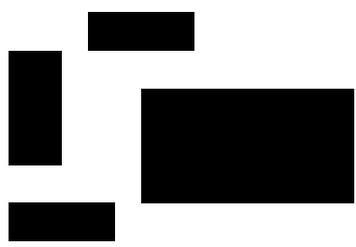
Willis Towers Watson and Cass Business School. Acquirers worldwide underperformed the Global Index by -5.0pp (percentage points) over the past year for deals valued over \$100 million, based on share-price performance, and have now on average failed to add value from deals for three consecutive years.

Global dealmaking is also at its slowest pace in six years, with 774 transactions completed over \$100 million worldwide in 2019, significantly down compared to 2018 (904) and the lowest annual volume recorded since 2013 (720). Forty-two per cent of these deals were unable to add shareholder value in 2019.



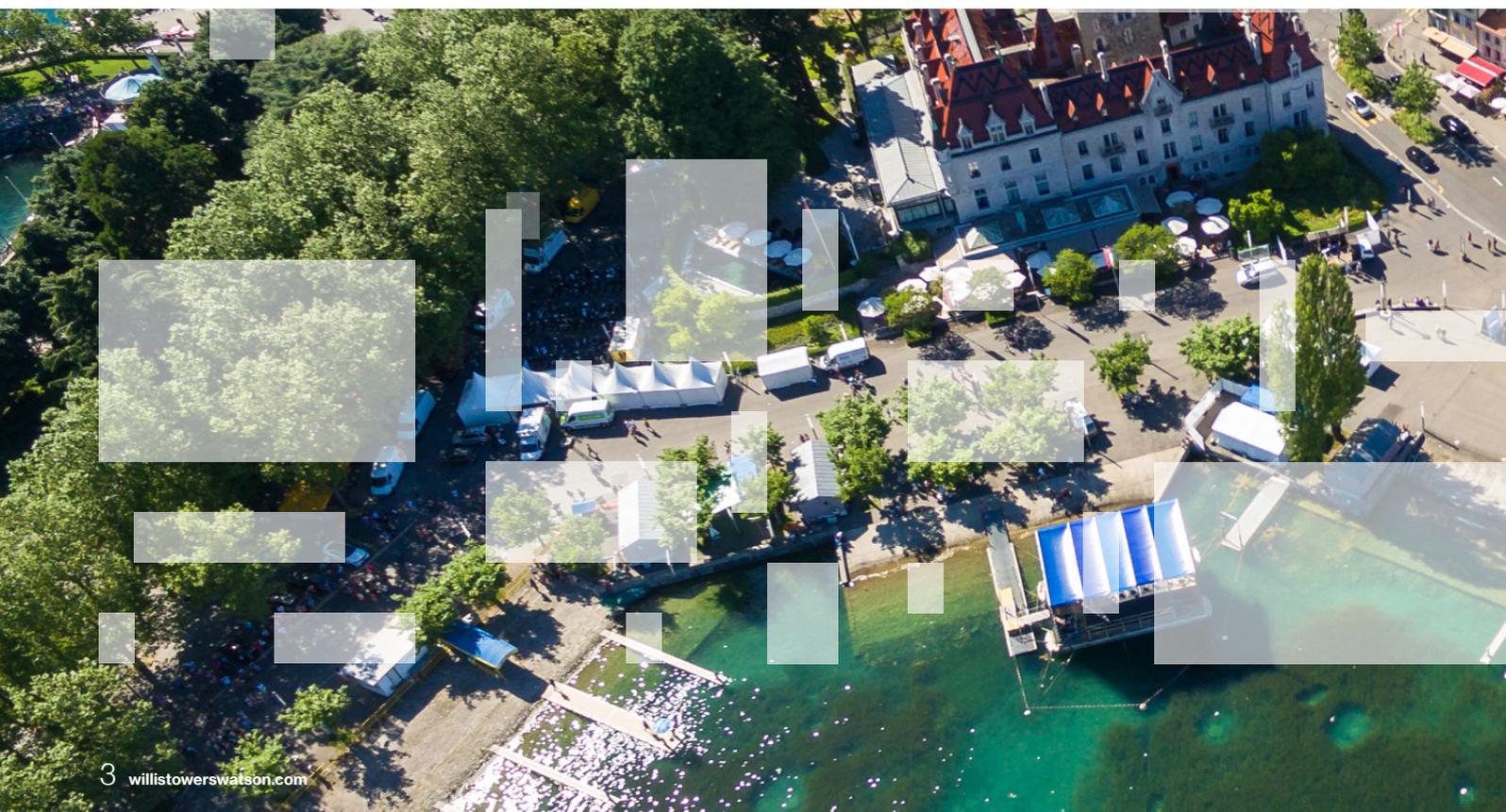
Jana Mercereau, Head of Corporate Mergers and Acquisitions for Great Britain, said:

“Last year may have ended with a flurry of deals, yet the global picture for mergers and acquisitions in 2019 was patchy at best. As regulatory, trade and economic uncertainties persist, the market is likely to continue at a slow pace in 2020, with companies in wait-and-see mode, particularly in North America where many transactions are on hold due to trade tensions, a slowing US economy and because presidential election years historically bring market volatility.”



Additional findings revealed by the study include:

- Acquirers underperformed the Index in the last quarter of 2019, with performance 5.0pp below the Index; for the one year rolling period, acquirers underperformed the index by 5.4pp. The three-year rolling average performance is currently at -2.6pp and the performance since the start of the QDPM in 2008 is currently at 2.3pp.
- Deal volumes are significantly down compared to the last quarter of 2018 and currently with 210 deals for Q4. This is due to the fall in deals in all regions.
 - Mega deals closed in Q4 2019 are currently at four compared to seven deals in Q3 and to nine deals in Q4 2018. The performance of mega deals is currently at 0.5pp and -3.7 for Q4 and 2019 respectively.
 - Large deals closed in Q4 2019 are currently at 47 compared to last quarter with only 36 deals.
 - The annual volume for 2019, is currently at 774 deals, has the lowest annual volume since 2013.
- All regional acquirers, but Europe, are underperforming their respective regional index.
 - Asia-Pacific acquirers have failed to replicate their outperformance in the third quarter and show an underperformance of -2.1pp with 60 deals closing in Q4 2019 (YTD 2019 -3.2pp)
 - Acquirers from North America are currently underperforming their regional index by 7.8pp with 97 deals completed in Q4 (YTD 2019 -6.6pp)
 - European acquirers showed signs of recovery are in the top spot, with 7.7pp above their regional index with 44 deals closing in Q4 despite Brexit (YTD 2019 1.9pp).
 - Note the performance for UK acquirers is currently at 2.0pp below the index with 12 deals (UK acquirers are consistently underperforming the FTSE all share index throughout the entire study period (-13.7pp), in the last three years (+1.4pp) and in the last year (-9.2pp)). Deal volumes are at record lows on a YTD basis since 2010.
- In the industry analysis, we find the Consumer Product and Services and Consumer Staples sectors are all outperforming their respective indices in both Q4 and in 2019.
- In a reversal trend, Cross-border and Cross-regional deals outperformed the index in Q4 and their respective deals in Q3 2019 and their corresponding quarter of last year.



Global M&A forecast: The downward trend of the global M&A market continues

Willis Towers Watson expects deal makers to take a long-term view in response to the ongoing uncertainty, as confidence and market fundamentals remain robust.

The Global M&A market continues to struggle to add value and buyer performance has been in steady decline since a 2015 peak, according to long-term data compiled by Willis Towers Watson and Cass Business School. After 2018 saw deal makers underperform in terms of shareholder value for an unprecedented fifth consecutive quarter, and record their worst annual performance for a decade, what can potential acquirers expect in 2019?

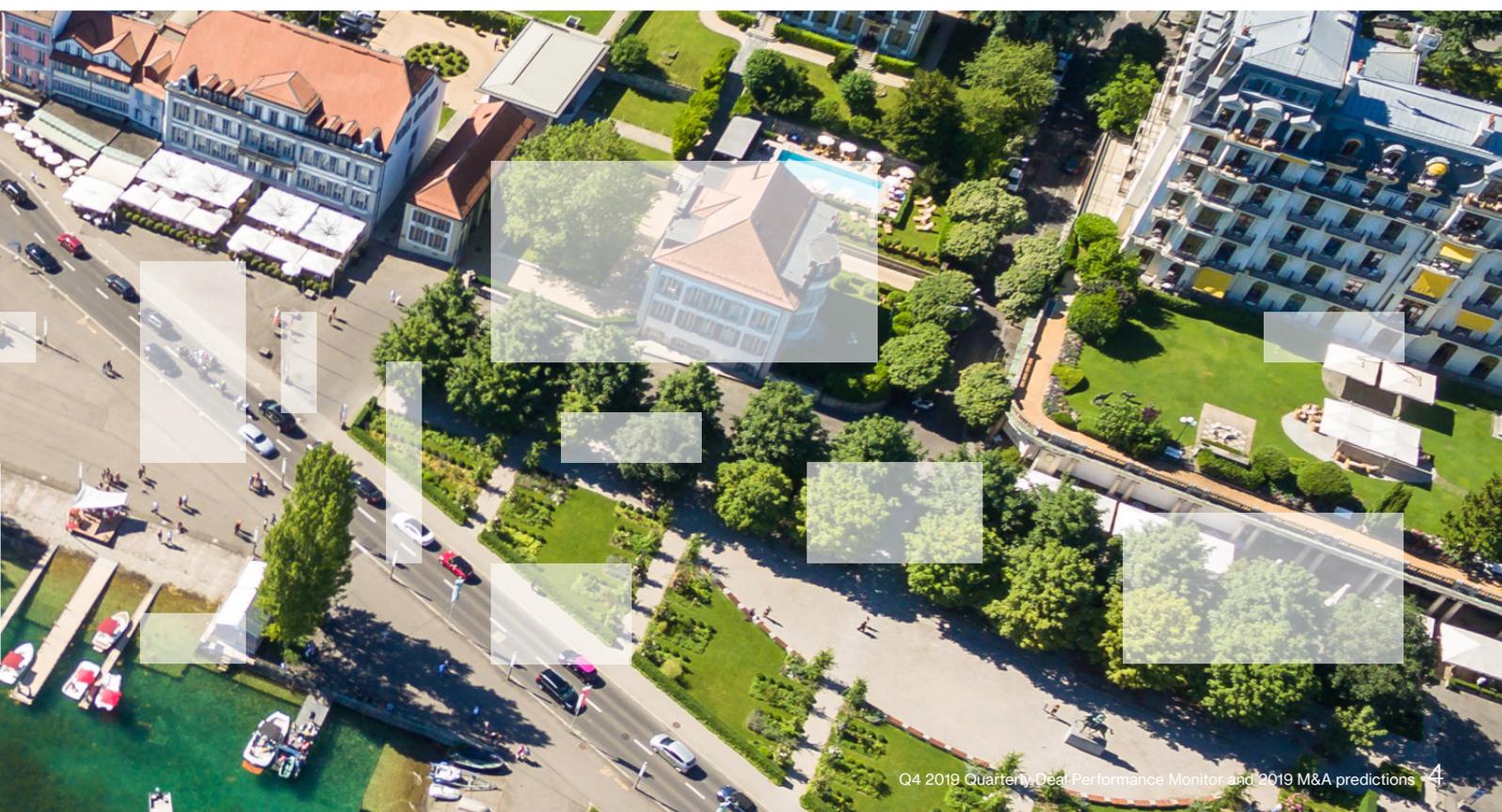
Jana Mercereau, Head of Corporate Mergers and Acquisitions for Great Britain, said:

“Market conditions are becoming increasingly challenging, yet many investors with plenty of dry powder remain cautiously optimistic about the year ahead. Where deal volume has gone down, our analysis often reveals performance has on average improved, as seen in Europe for the last two years. This highlights the strengths of a more disciplined market striking well thought-out strategic deals with greater care and due diligence. Key drivers for pursuing acquisitions in 2020, meanwhile, are likely to remain unchanged from last year, as companies seek access to new markets or respond to tech disruption by acquiring the latest technology or highly skilled workers.”

Figure 3. Global M&A deals – average performance

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Average Annual Performance (percentage points)* | 3.2 | 4.0 | 2.7 | -0.7 | 4.5 | 5.5 | 10.1 | 5.4 | -1.3 | -3.0 | -5.0 |

*The figures in the table show the annual median-adjusted performance of all acquirers.



2020 M&A predictions

Based on short and long-term trends revealed by the data, as well as conversations with clients and colleagues, Mercereau shares her M&A predictions for 2020:

1. US leads M&A slowdown

Completed deals are expected to remain low in 2020, driven by a slowdown in US M&A activity. In particular, the annual volume of large deals (valued over \$1 billion) in 2019 was 173 - the lowest for five years. Market reluctance to take on big deals may also signal companies stepping up preparations for a recession.

2. Europe to retain top spot

European dealmakers topped the global M&A rankings in 2019 for a second consecutive year, outperforming their regional index by +1.9pp, and we expect this positive trend to continue. Meanwhile, deal volume in the UK last year (31) was at its lowest for a decade, and volume will stay low as long as the risk of a cliff-edge no-deal Brexit remains, keeping business investment at bay for much of 2020.

3. China M&A unlikely to improve

Dealmaking momentum in China plummeted from a record high of 243 deals in 2015 to just 72 in 2019, as trade uncertainties and more recent fears of a global recession took hold. This slowdown, in part due to a sharp decline in outbound Chinese acquisitions, is consistent with a wider trend for fewer M&A deals across the Asia Pacific region and is expected to continue in 2020.

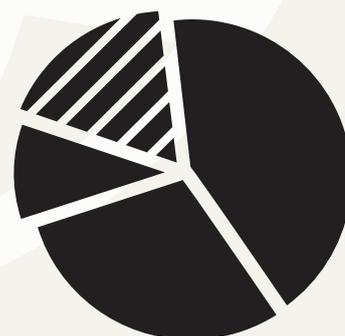
Marginally improved deal performance by APAC dealmakers in 2019 at least suggests some improved stability after a turbulent few years.

4. Slower close times expected

With deals completed in 2019 taking on average 141 days to execute compared to 120 days in 2018, the time taken to complete M&A transactions in the year ahead is likely to increase further. Completing cross border deals, in particular, are likely to get harder, slowed down by more rigorous due diligence and the need to prepare for greater regulatory scrutiny.

5. Private equity and acqui-hire deals on the rise

Alternative investors such as PE buyers, armed with record levels of unspent capital, are expected to be increasingly active in 2020, completing larger deals and entering more corporate joint ventures. Their pursuit of rapid returns will however be challenged by a slowing economy, geopolitical strains and regulatory demands. We also expect the rising trend of acqui-hire deals (those completed with the express intent of acquiring talent a buyer could not otherwise hire) to continue to gather pace in 2020.



Appendix A: Closed Deal Analysis – Q4 2018, Q3 2019 and Q4 2019

| | Q4 2018 | Median Deal Value (\$m) | Q3 2019 | Median Deal Value (\$m) | Q4 2019 | Median Deal Value (\$m) |
|--------------------------------------|---------|-------------------------|---------|-------------------------|---------|-------------------------|
| All | 271 | 399 | 197 | 342 | 210 | 433 |
| Asia-Pacific | 58 | 268 | 53 | 260 | 60 | 290 |
| Europe | 56 | 498 | 36 | 471 | 44 | 292 |
| North America | 148 | 439 | 98 | 380 | 97 | 529 |
| Rest of the world | 9 | 233 | 10 | 242 | 9 | 451 |
| Consumer Products & Services | 8 | 255 | 16 | 240 | 13 | 222 |
| Consumer Staples | 20 | 568 | 7 | 342 | 8 | 716 |
| Energy & Power | 37 | 468 | 18 | 379 | 25 | 722 |
| Financials | 42 | 416 | 40 | 380 | 36 | 526 |
| Healthcare | 28 | 480 | 19 | 519 | 17 | 576 |
| High Technology | 30 | 434 | 21 | 410 | 39 | 510 |
| Industrials | 40 | 227 | 24 | 244 | 28 | 293 |
| Materials | 28 | 374 | 25 | 273 | 19 | 249 |
| Media & Entertainment | 19 | 419 | 13 | 505 | 11 | 154 |
| Retail | 11 | 320 | 8 | 400 | 7 | 160 |
| Telecommunications | 8 | 574 | 6 | 404 | 7 | 711 |
| Domestic | 189 | 385 | 123 | 370 | 139 | 481 |
| Cross-border | 82 | 412 | 74 | 310 | 71 | 325 |
| Asia-Pacific | 12 | 278 | 17 | 215 | 17 | 282 |
| Europe | 39 | 569 | 26 | 573 | 26 | 334 |
| North America | 26 | 342 | 25 | 243 | 21 | 303 |
| Rest of the world | 5 | 287 | 6 | 360 | 7 | 740 |
| Intra-regional | 216 | 378 | 152 | 312 | 160 | 472 |
| Cross-regional | 55 | 420 | 45 | 380 | 49 | 298 |
| Asia-Pacific | 9 | 280 | 12 | 253 | 10 | 290 |
| Europe | 26 | 473 | 13 | 750 | 16 | 280 |
| North America | 17 | 432 | 15 | 273 | 17 | 285 |
| Rest of the world | 3 | 567 | 5 | 486 | 6 | 596 |
| Intra-sector | 185 | 446 | 128 | 408 | 121 | 492 |
| Cross-sector | 86 | 280 | 69 | 273 | 89 | 289 |
| Asia-Pacific | 25 | 223 | 20 | 205 | 37 | 257 |
| Europe | 17 | 399 | 13 | 361 | 19 | 200 |
| North America | 40 | 335 | 33 | 305 | 31 | 510 |
| Rest of the world | 4 | 192 | 3 | 138 | 2 | 955 |
| Quick deals | 100 | 263 | 73 | 275 | 87 | 206 |
| Slow deals | 171 | 578 | 124 | 426 | 123 | 701 |
| Large deals (over or equal to \$1bn) | 70 | 2,325 | 43 | 2,607 | 51 | 2,065 |
| Mega deals (over or equal to \$10bn) | 9 | | 7 | | 4 | |

Appendix E: Top 25 Deals YTD 2019

| Date Announced | Date Effective | Acquirer Name | Target Name | Value of Transaction (\$ mil) |
|----------------|----------------|--|------------------------------|-------------------------------|
| 14/12/2017 | 20/03/2019 | Walt Disney Co | 21st Century Fox Inc | 84,197 |
| 03/01/2019 | 20/11/2019 | Bristol-Myers Squibb Co | Celgene Corp | 79,377 |
| 28/03/2018 | 08/01/2019 | Takeda Pharmaceutical Co | Shire PLC | 60,117 |
| 24/04/2019 | 08/08/2019 | Occidental Petroleum Corp | Anadarko Petroleum Corp | 38,379 |
| 18/03/2019 | 31/07/2019 | Fidelity Natl Info Svcs Inc | Worldpay Inc | 35,032 |
| 28/10/2018 | 09/07/2019 | IBM Corp | Red Hat Inc | 33,555 |
| 02/02/2018 | 31/07/2019 | Vodafone Group PLC | Unitymedia GmbH | 21,826 |
| 16/01/2019 | 29/07/2019 | Fiserv Inc | First Data Corp | 21,656 |
| 10/06/2019 | 01/08/2019 | Salesforce.com Inc | Tableau Software Inc | 17,014 |
| 03/01/2018 | 01/01/2019 | Dominion Energy Inc | SCANA Corp | 14,376 |
| 26/08/2019 | 21/11/2019 | Amgen Inc | Celgene Corp-Otezla assets | 13,400 |
| 13/08/2019 | 04/12/2019 | CBS Corp | Viacom Inc | 11,695 |
| 17/06/2019 | 30/07/2019 | Pfizer Inc | Array Biopharma Inc | 11,371 |
| 08/08/2019 | 04/11/2019 | Broadcom Inc | Symantec-Enterprise Security | 10,700 |
| 08/03/2018 | 14/01/2019 | Suzano Papel e Celulose | Fibria Celulose SA | 10,286 |
| 10/05/2018 | 31/01/2019 | Wanhua Chemical Group | Yantai Wanhua Chem Ind Co | 10,239 |
| 14/01/2019 | 18/04/2019 | Newmont Mining Corp | Goldcorp Inc | 9,966 |
| 21/05/2018 | 25/02/2019 | Westinghouse Air Brake Technologies Corp | Gen Elec Co-Transp Bus | 9,630 |
| 03/05/2019 | 23/08/2019 | Sinclair Broadcast Group Inc | Walt Disney Co-Fox Regional | 9,600 |
| 11/11/2018 | 23/01/2019 | SAP SE | Qualtrics International Inc | 8,000 |
| 07/01/2019 | 15/02/2019 | Eli Lilly & Co | Loxo Oncology Inc | 7,985 |
| 08/11/2018 | 04/04/2019 | Commscope Holding Co Inc | Arris International Inc | 7,877 |
| 02/05/2019 | 11/10/2019 | 3M Co | Acelity Inc | 6,725 |
| 03/12/2018 | 19/09/2019 | Nexstar Media Group Inc | Tribune Media Co | 6,400 |
| 04/10/2019 | 16/12/2019 | Hess Midstream Partners LP | Hess Infrastructure Partners | 6,194 |

Willis Towers Watson QDPM Methodology

- All analysis is conducted from the perspective of the acquirer.
- Share-price performance within the quarterly study is measured as a percentage change in share price from six months prior to the announcement date to the end of the quarter.
- All deals where the acquirer owned less than 50% of the shares of the target after the acquisition were removed, hence no minority purchases have been considered. All deals where the acquirer held more than 50% of target shares prior to the acquisition have been removed, hence no remaining purchases have been considered.
- Only completed M&A deals with a value of at least \$100 million which meet the study criteria are included in this research.
- Deal data sourced from Refinitiv.

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Further information

For further information about the research, or for help with your M&A activity, please contact your Willis Towers Watson consultant, or

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