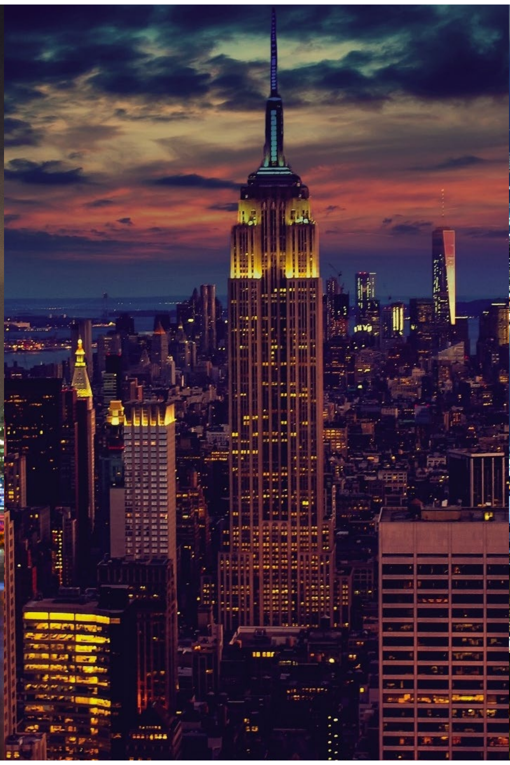
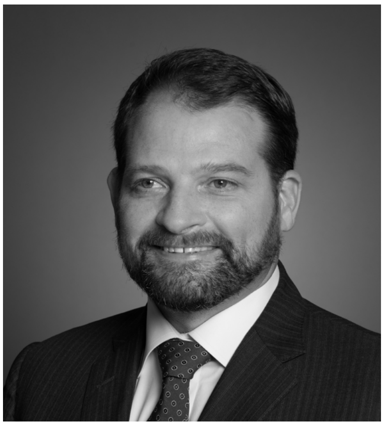




Global Acquirer Trends Q3 2018



By Steve Miles
Partner, Chicago

The third quarter yielded few surprises for mid-market M&A - except maybe for the fact that in such a volatile era, we saw so few surprises.

North America continued to lead the world in mid-market transactions, with 1,397 deals out of 2,542, and more than half the world's total volume. The trend continued the slight downward slide we have seen all year, down from 1,434 in Q2 and 1,452 reported in Q1. Next-largest was the United Kingdom & Ireland (UK&I), which reported 374 total deals, down slightly from 397 in Q2. DACH reported 291 deals, slightly up from Q2's 272, and the Nordics dipped to 225 from 262 in Q2. China & India were relatively flat with 138 deals, just slightly down from Q2's 147, while Iberia posted 117, also a little softer than Q2, which saw 124.

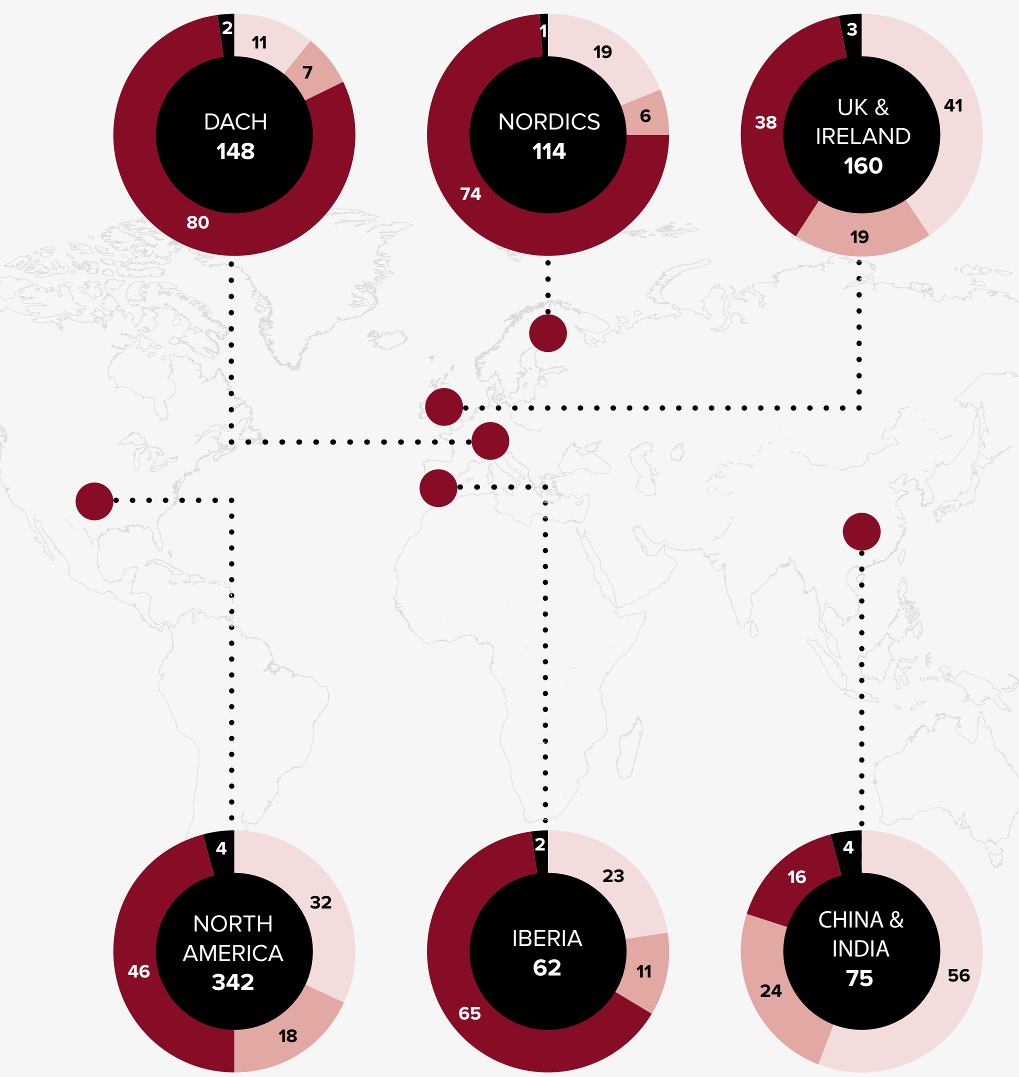
Domestic deal volume stayed strong in most markets. North American domestic deal volume remained robust in the third quarter (342 inbound to 1,055 domestic), a 24% to 76% mix, weighted a little more heavily toward inbound than in Q2, which recorded 302 inbound deals to 1,132 domestic, a 21% to 79% mix, and within single digits of Q1's 307 to 1,145. Internationally, volumes were divided more narrowly between inbound and domestic. The UK&I reported a 43%/57% split (160/214) between inbound and domestic, respectively, followed by DACH (148/143), the Nordics (114/111), Iberia (62/55), and China & India (75/63). In most markets outside North America and the UK&I (DACH, Iberia, Nordics, and China & India) inbound deals outpaced domestics, and total deal volume as well as domestic vs inbound M&A activity stayed on par with Q2 and Q1's strong totals, continuing the year's solid performance.

Across the sectors, business services continued their strong year, followed by industrials and media & technology. In North America, for instance, the business services sector was again the unanimous leader (475), though down from Q2 (525), followed by industrials (333) which was up from 299 in Q2, and media & technology (313). Outside of North America, the European markets showed some local preferences. In the UK & Ireland, business services continued their strong year (138 compared to 154 in Q2), followed by media & technology (71), and consumer (70). In DACH, meanwhile, industrials, a traditional stronghold of the Mittelstand, stayed at the top of the charts (100), followed by business services (81) and media & technology (55). In the Nordics, business services still led but enthusiasm waned as they saw a decrease from 68 from 86 in Q2, more nearly matching interest in industrials (63) and media & technology (62). In Iberia, business services deals were once again at the top (42), up from 41 in Q2, but the industrials sector was exceptionally strong in the region as well (29), up significantly from 19 in Q2, followed by consumer (24).

"Despite the threat of rising interest rates and continued anxieties about possible disruptions in international trade, buyers remained confident in the third quarter."

WHERE ARE THE BUYERS COMING FROM?

The charts show the percentage of inbound M&A in H3 2018 by region for each jurisdiction



KEY

AMERICAS ASIA & AUSTRALIA EUROPE MIDDLE EAST & AFRICA

	DACH	Iberia	Nordics	UK & Ireland	North America	China & India
Inbound deals	148	62	114	160	342	75
Domestic deals	143	55	111	214	1,055	63
Total deals	**291**	**117**	**225**	**374**	**1,397**	**138**

Despite the threat of rising interest rates and anxieties about possible disruptions in international trade, buyers remained confident in the third quarter. For now, economic fundamentals continue to outpace any serious fears of an economic downturn.

Interestingly, investors seem to be relatively unworried about a number of other concerns as well, including such unwelcome possibilities as:

- **Property bubbles.** Ten years after the financial crisis, real estate concerns are beginning to mount again, this time at the high end of the market. One UBS study recently concluded that a number of cities are at risk of a residential bubble bursting, including four important financial cities: Hong Kong, Munich, Toronto, and London. Overbuilding at the high-end of the New York market is leading to some anxiety in the Big Apple too.
- **Trade wars.** While many companies fear trade wars might affect their business, the M&A market as a whole seems to have shrugged off any long-term concerns about tariffs.
- **Global warming.** The long, hot summer of 2018 gave investors some cause for concern. The UK had one of its hottest summers on record, while the US had its fourth-hottest ever. These heat waves are having real economic consequences: in California alone, state officials estimated that the cost of summer forest fire damage topped $845 million.
- **CLO market.** The US leveraged loan market has hit $1.1tr. Top Fed policymakers recently cited the surging growth of the CLO market and its possible risks to the financial system. Yet, regulators are easing the rules. These loans typically have protections, known as covenants, aimed at providing investors with early warning signs of credit deterioration. Today, however, due to market conditions that heavily favor issuers, loans without such protections – so called "covenant-lite loans" - now account for 80 percent of new issuances in the leveraged loan market. In addition, a recent court decision relaxed protections that forced fund managers to hold at least 5% of the exposure to these risky loans. This same lack of governance fueled last decade's boom and bust in the mortgage-backed securities market. But for now, the party goes on.

These and other serious issues may weigh heavily on buyers' minds, but we are confident they will not wholly obscure the buyers' recognition of their target firm's long-term value.

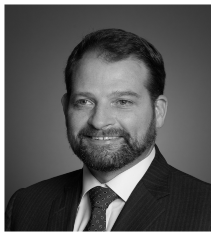
Christian Grandin
Partner
Düsseldorf
+49 211 300 495 21
grandin@livingstonepartners.de

Baoshan Bao
Partner
China – Düsseldorf
+49 211 300 495 34
baoshan@livingstonepartners.de

Jeremy Furniss
Partner
London
+44 (0)20 7484 4703
furniss@livingstonepartners.co.uk

Neil Collen
Partner
Madrid
+34 963 5245 04
collen@livingstonepartners.es

Thomas Karlsson
Partner
Stockholm
+46 8 557 701 13
karlsson@livingstonepartners.se



Steven Miles
Partner
Chicago
+1 312 670 5901
miles@livingstonepartners.com