Offshore-i

H1 REVIEW 2018 JAN – JUNE SUMMARY

OFFSHORE M&A INSIGHTS AND DEAL INTELLIGENCE

APPLEBY

Cameron Adderley
Partner & Global Head of Corporate

In most regions of the world, including offshore, the volume of deals has fallen back from the levels seen in the latter half of 2017. At the same time, value is firmly up and firms in the region as well as in Western Europe and North America in particular are benefitting from a resurgent world economy.

Companies, regardless of industry, have sought to head off technological disruption and bolster revenue growth through acquisitions. Strong fundamentals, including high levels of corporate cash and affordable and accessible credit, are undoubtedly underpinning activity. Relatively high share prices have also provided companies with a currency to complete stock deals.

M&A also depends on confidence and the markets continue to remain resilient in the face of several potentially negative factors; threatened trade wars, Brexit, unrest in the Middle East and unpredictable domestic politics, to name but a few. Dealmakers remain eager to grasp chances to make additions, sell-off inessential subsidiaries and complete strategic tie-ups to propel growth.

In the midst of this, the offshore region continues to play an important economic function. A recent research paper[1] noted that by mitigating instances of double and triple taxation, offshore centres raise aggregate investment and we continue to see a very wide range of countries and industries taking advantage of these efficiencies.

From a technical perspective, M&A tends to follow a cycle of activity levels and the sustained bull run inevitably leads to speculation over a future retrenchment. We expect the second half of the year to be busy, but no one can afford to ignore the threats posed by rising interest rates, increasing protectionism, a possible trade war, seemingly unsustainable valuations and a volatile stock market. However, companies that are prepared to move swiftly and have clear targets and prices in mind will undoubtedly meet with success.

Please don't hesitate to get in touch with Appleby should you wish to discuss any of the issues highlighted in this report.

[1] *Offshore Bet: the benefits of capital mobility, Institute for Economic Affairs (IEA), June 2018.*

OFFSHORE BY THE NUMBERS

USD 216bn
Total amount spent on offshore targets, almost as much as all of last year

1,344
Total deals announced so far; more than India and Singapore combined

28
Inbound deals worth at least USD1bn, including a record six worth over USD5bn

180
IPOs announced; offshore's highest ever six-month total

USD 161m
Average size of an offshore deal, higher than any other world region

80
Countries worldwide that have conducted offshore deals so far this year

INTERNATIONAL M&A ENVIRONMENT

Growth in the global transactions market continues to be remarkably robust with signs that investors are once again willing to take on big, strategic mega-deals after a relatively quiet few quarters where mid-market deals were at the forefront.

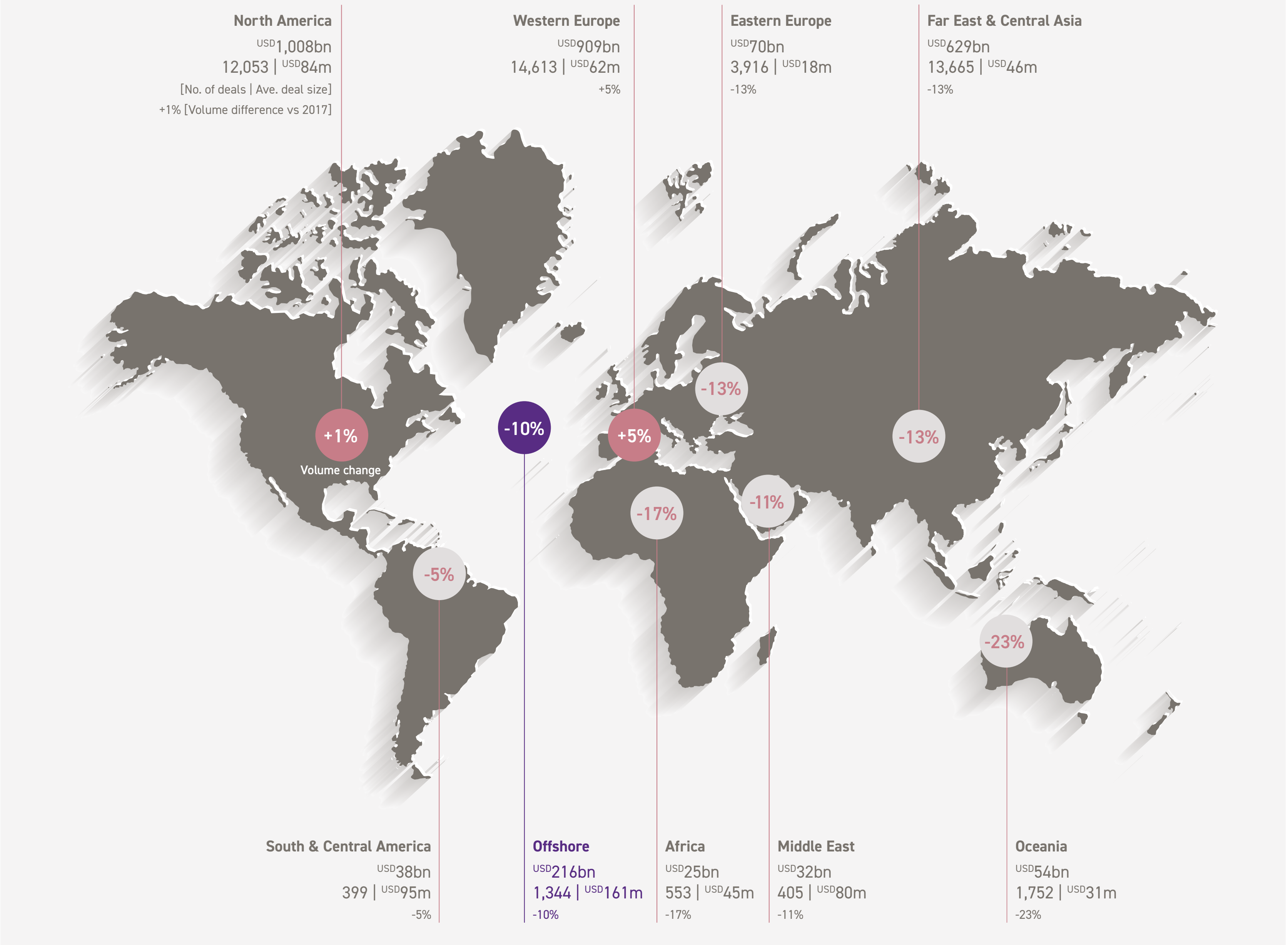
Thanks to a focus on consolidation in corporate Europe and a return to dealmaking into the region by Asian companies, Western Europe is currently in the spotlight, with deal values up by an impressive 56% year on year, while volumes improved by 5%. The usual North American powerhouse was slightly more subdued but still impressive. All other regions have shrunk back and the sharp slowdown in China has continued from last year.

Western European M&A activity continues to be robust. Low interest rates, positive economic growth, and straightforward access to debt has meant that the local M&A market has been buoyant in recent years, but a flurry of major deals sent figures to new heights in the first half of 2018, even as the overall number of deals only increased at a more modest rate.

Despite recent concerns over economic performance, and the uncharted waters of Brexit ahead, companies around the world understand that Western Europe offers deep capital markets and experienced talent, and those competitive advantages will not disappear overnight. Arguably, the surrounding stigma from Brexit has suppressed local asset values, providing a rare opportunity for bold acquirers to pick up undervalued quality companies.

In North America, the positive changes introduced by the US tax reform law and the general abundance of capital appear to have balanced out the volatility that hit equity markets early in 2018 and the new protectionist measures introduced worldwide. Corporate bidders' increasing firepower, appetite for riskier combinations and desire to acquire technology to stay ahead of peers are driving rampant activity. This pursuit of technology is reshaping the traditional M&A landscape.

WORLD REGIONS IN H1 2018



With the rate of public listings in decline, there has been some concern that the market for viable M&A targets is gradually shrinking. Offsetting this though are companies increasingly prepared to make divestments of unwanted or valuable subsidiaries and departments.

The M&A market is inexorably linked with business sentiment, corporate fundamentals and macroeconomic forces that can impact factors like access to financing. With all these indicators continuing to trend positively, the global M&A boom shows no signs of stopping. However, it remains to be seen what the repercussions are from the looming trade war sparked by President Trump against China.

Looking to the future, interest rates across the globe will likely move higher, meaning that any companies hoping to finance an acquisition with debt will likely face highest costs if they delay for too long.

Altogether, 2018 is unlikely to eclipse the record-setting numbers achieved in 2015, when many private equity backed companies acquired pre-crisis had weathered the storm and were ready to be sold, but it is on pace for another outstanding year.

OFFSHORE REGION & FUTURE DRIVERS

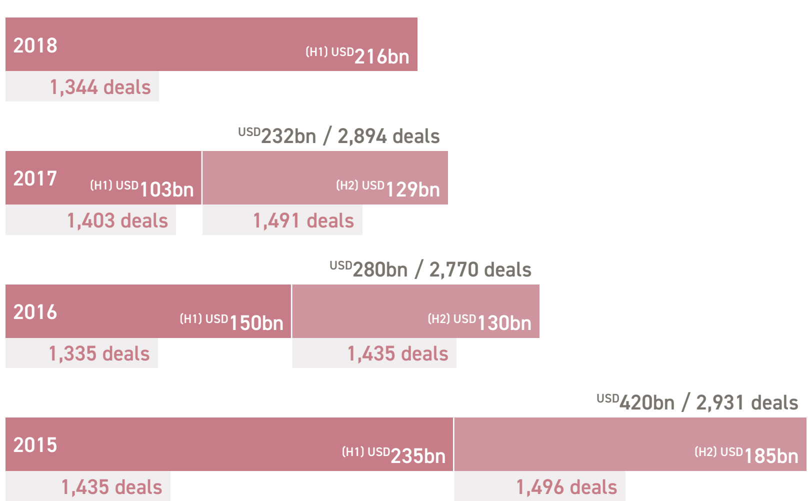
So far this year, there has been USD216bn inbound into the offshore region, with an average deal size of USD161m, almost double last year's level. There are echoes of 2015, a remarkable year for offshore, which also came bursting out of the blocks.

In total 1,344 deals were recorded for the period, a 10% drop on the last six months of 2017, which was one of the most active six-month windows on record. To give a sense of scale, if offshore was a country it would have been the ninth most targeted in the world, just behind Australia and ahead of South Korea.

The most frequent types of deals are acquisitions, capital increases (usually a share issue) and taking minority stakes in other companies. In the past, these three were fairly evenly balanced but over the last 18 months, acquisitions have moved notably ahead and now make up 40% of all deals. Increasingly, firms are choosing to top up an existing stake and secure control of an investment outright. This makes sense given increasing competition for quality targets, a low risk environment and easy access to finance and this pattern likely to continue for some time.

Companies from over 40 other countries around the world have targeted offshore corporations over the course of the year.
Despite curtailing its activities elsewhere, China remains the most prolific country by volume but large deals have been originated from a diverse range of other countries, including Japan and France, the hardy perennials of the USA and UK, as well as Ireland and the Netherlands.

OFFSHORE DEALS BY VOLUME & VALUE:



THE YEAR AHEAD

We believe that the following factors will influence M&A activity over the coming months:

RISING GOVERNMENT SCRUTINY AND SHIFTING VIEWS ON THE BENEFITS OF GLOBALISATION.

Foreign investment has come under the spotlight with some nations raising new barriers to address national security concerns and allay populist fears. With President Trump's aggressive stance on trade, how will other major economies react? Countries are increasingly turning to foreign investment laws to block deals in sensitive industries, including the technology and utility sectors, while antitrust regulators have put up barriers to several multibillion-dollar transactions this year.

CHINESE OUTBOUND ACTIVITY.

China's determination to carefully manage the levers of economic power should not be underestimated but nor should its resolve to make a success of its Belt and Road Initiative to build new trade routes and economic ties across Asia, Europe, the Middle East and Africa. The current severe downturn in outbound activity is therefore likely to be short-lived.

PRIVATE EQUITY AT A CROSSROADS.

Firms have record amounts of dry powder and are finding innovative ways to deploy it. But challenges remain with high valuations and rising competition from free-spending corporations with lower performance expectations. If managers struggle to deploy cash, they will have to return more to investors, leading to disappointing returns. They also risk coming under growing pressure to deploy funds in deals for the sake of it, increasing their risk and the potential for poor returns.

CHANGING SECTOR DYNAMICS.

Sectors such as healthcare, retail and the media are going through a period of realignment. Buyers are paying large multiples for high-quality companies that are a good strategic fit and are also prepared to make expansionary deals, allowing companies to diversify and build revenues in new markets. In addition, specialisation in key product areas and disposal of non-core assets are trending themes.

US ACTIVITY WILL PICK UP.

The cut in headline corporate tax rates and the introduction of reliefs on capital expenditure, along with incentives to repatriate US corporate cash held overseas, have already started to make waves. Corporate confidence, an essential ingredient for M&A, is likely to remain strong. Public U.S. corporations facing concerns about disappointing shareholders expecting high growth rates will look to make dramatic deals.

TECHNOLOGY IN THE SPOTLIGHT.

Technology companies have long been the poster–boy of M&A, launching eye-catching IPOs, moving into other sectors and buying up exciting new tech start-ups. However, the growing debate about the size of some of these companies and also how they handle private information could change the landscape, particularly if it leads to stiffer regulation.

INCREASING SHAREHOLDER ACTIVISM WORLDWIDE.

Increasing shareholder activism worldwide has also injected a great deal of uncertainty in pending transactions, as investors have increasingly been siding with hedge funds seeking to force strategic and corporate management change. Shareholder approval is now no longer a given. Shareholders want more than after-the-fact quarterly reports, demanding strategic plans with objectives that they can hold the companies to moving forward.

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CONTACT US

Click on an image below to visit individual team member biographies

Cameron Adderley

HONG KONG
+852 2905 5790
cadderley@applebyglobal.com

Timothy Faries

BERMUDA
+1 441 298 3216
tfaries@applebyglobal.com

Simon Raftopoulos

CAYMAN
+1 345 814 2748
sraftopoulos@applebyglobal.com

Wendy Benjamin

JERSEY
+44 (0)1534 818 057 or +44 (0)1481 755 603
wbenjamin@applebyglobal.com

Jeffrey Kirk

BRITISH VIRGIN ISLANDS
+1 284 393 5318
jkirk@applebyglobal.com

Kyle Sutherland

ISLE OF MAN
+44 (0)1624 647 653
ksutherland@applebyglobal.com

Jeremy Berchem

GUERNSEY
+44 (0)1481 755 601
jberchem@applebyglobal.com

Malcolm Moller

MAURITIUS
+230 203 4301

SEYCHELLES
+248 429 5283

mmoller@applebyglobal.com

ABOUT US

With a broad global footprint, strong working relationships with local regulators and deep transactional experience, Appleby's M&A team is well-positioned to swiftly advise clients on a wide range of M&A activities in the offshore region.

Our team regularly works with FTSE 100 and Fortune 500 companies around the globe to help them deploy strategic growth and restructuring initiatives whether involving single jurisdictions or complex multi-jurisdictional, multi-disciplinary transactions. Our expertise includes advising on:

- Capital markets transactions including debt and equity issues, and capital raising transactions including private placements, initial public offerings (IPOs), and (in Jersey) cashbox structurings linked to placings and rights issues of Jersey-listed companies
- Complex joint ventures and strategic alliances
- Corporate restructurings
- Disposals
- Private M&A

RESEARCH METHODOLOGY

This report details mergers and acquisitions and capital markets activity in offshore jurisdictions in 2018 using data from the Zephyr database, published by BvD. The offshore region covers target companies in Bermuda, British Virgin Islands, Cayman Islands, Hong Kong, Guernsey, Jersey, Isle of Man, Mauritius and Seychelles.

The date range for 2018 H1 analysis is 1 January 2018 to 30 June 2018. All deal types are included except joint ventures and share buybacks. IPOs and planned IPOs are calculated separately. Deal status is as announced within the time period covered. Certain deals are subject to standard closing terms. Where necessary, deal values have been converted to USD at a rate set by Zephyr. Not all deals have a publicly known value. Not all deal details are reported immediately, and the figures are subject to change as new information becomes available.

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