Offshore region enjoyed a busy year in 2017. Worldwide, deal activity fell just short of the record-breaking figures from previous years.

While the circumstances surrounding the timing and background to deal making is wide and varied, political developments in Washington and Europe have undoubtedly caused consternation. In China, capital controls were introduced by their foreign exchange regulator at the end of 2016 followed by a government-directed assessment of any cross-border financing arrangements.

However, the spate of ongoing positive economic news being reported in most regions of the world, along with improved oil prices, has provided a bedrock of confidence. European elections, tax reforms in the US and Brexit negotiations with the UK have not led to the economic fallout feared by some. In China, the renminbi has strengthened and strategic prudent deals continue to be approved.

The opportunities to expand internationally to fill product and production line gaps and to acquire technology, remain tempting and accessible. Meanwhile, worldwide GDP is still low, and achieving robust growth is likely to require M&A commitment.

In the midst of all this, the Offshore region has maintained a high level of deal activity, with inbound and outbound volume outpacing the previous year, while IPOs and Private Equity deals have been especially prevalent.

Please don’t hesitate to get in touch with your usual Appleby contact should you wish to discuss any of the issues highlighted in this report.
The M&A Environment

Global activity has declined year-on-year, but underneath this headline, several regions are experiencing positive growth.

Africa proved to be the biggest mover as deal making there rocketed to USD59bn in 2017, thanks mostly to a series of large mining deals.

In South & Central America, the economic slowdown and the economic and political turbulence currently facing the region has made some companies affordable targets, and deal activity has picked up after a steep decline last year.

Elsewhere, the uncertainty around China’s restrictions on capital outflows has led to a sharp decline in Chinese outbound activity. The drop was not only expected but wanted, the Chinese regulators having become alarmed at the number of overseas deals that made questionable business sense, and took up large chunks of the country’s foreign reserves.

The US remained the highest-value region, with USD1.6tn of deals, though the value of M&A there fell 10% from a year ago. In contrast to the US, Europe enjoyed an increase in deal value YoY and climbed to USD1.3tn.

Cross-border activity remains a key component of M&A, enabling dealmakers to spread risk and expand their global footprint, which is more commonplace and necessary in today’s economy. This is particularly true of expansion into emerging markets, which can provide a much needed source of growth for legacy firms that have reached market saturation in developed economies.

Despite the slowdown, the typical M&A motivations remain as relevant as ever; scope for efficiency savings, gaining access to operational or sector expertise, upgraded systems and IT structures and expansion into adjacent industries and geographies. In addition, rapid technological and logistical advances are making industry convergence all the more common, with ‘Fintech’ becoming the new buzzword for this phenomenon.
THE YEAR AHEAD

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

BULL MARKET SCENARIO

Powerful fundamentals are in place – strong corporate cash balances, buoyant equity markets and continued ready availability of debt financing and acquisitions are still seen as an easy way to boost revenue and earnings. However, the risk remains of overpaying for assets.

TECHNOLOGY DISRUPTION

Every industry is being disrupted, as companies utilise technology to adapt to changing distribution channels and consumer preferences. Many non-tech companies are buying strategic assets to better position themselves to differentiate and compete on a global scale.

US TAX REFORMS & REGULATORY SCRUTINY

American companies will benefit from the US tax reform, which lowered the headline corporate tax rate to 21% and permitted US companies the ability to repatriate cash. Offsetting this are increased efforts to block high-profile mergers, along with greater scrutiny of foreign buyers.

CHINESE GOVERNMENT CONCERN OVER OUTBOUND DEALS

Chinese outbound M&A has slowed during 2017, as Beijing imposes newly introduced capital controls that make it difficult to move money out of the country. While signs of a resurgence have emerged, China’s bank regulator recently cautioned on “systemic risk” in overseas buying.

POLITICAL UNCERTAINTIES

Will the markets continue to remain sanguine in the face of a range of political uncertainties, including the impact of midterm elections in the US, Brexit in Europe, trade disputes and potential geopolitical flare-ups, notably in the Middle East and North Korea.

PRIVATE EQUITY DEPLOYMENT

Cheap debt, generous lending terms and plenty of dry powder has powered Private Equity to new post-financial crisis heights. Interest in Private Equity funds intensified in 2017, as investors hunted for returns at a time of low interest rates but this also meant more competition for deals.
RESEARCH METHODOLOGY

This report details mergers and acquisitions and capital markets activity in offshore jurisdictions in 2017 using data from the Zephyr database, published by BvD. Private equity dry powder data is provided by Preqin. 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 2017 analysis is 1 January 2017 - 31 December 2017. 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.

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

Click here to visit applebyglobal.com