By all accounts, the world economy was in great shape in 2018 – global growth will probably be about 3.7% when all the numbers are in, according to the International Monetary Fund. But this headline figure masks a range of complex issues, most notably the rapid retreat of a number of stock exchanges in the final few months of the year. Reasons for this reversal include politics, trade disputes and technology concerns.

Questions are now being asked about whether this recent market activity is merely a natural retrenchment following years of exuberant growth, or whether it will develop into something more significant.

Economic cycles by their very nature rise and fall and there is discussion over how much longer what has been described as this most unloved of bull markets will continue, and how any such slowdown will play out. One known development is that any down cycle leads to a flight to quality, where considered deals and developments take the lead over more opportunistic and exuberant examples.

Quality is the benchmark of the offshore region, where the provision of expert resources, clear and supportive legislation and highly efficient markets mean that we continue to see a lot of high-end activity. Regardless of what the year ahead holds, our offshore jurisdictions will be able to ensure that the best M&A opportunities can move ahead.

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

OFFSHORE BY THE NUMBERS

USD 344bn
Total amount spent on offshore companies, over USD 100 billion more than in 2017

2,781
Total deals announced so far; more than South America & Africa combined

57
Deals worth at least USD 1 billion, including a record nine megadeals each worth over USD 5 billion

349
IPOs announced; the region’s highest ever annual total

101
Countries worldwide that have conducted offshore deals so far this year

273
Number of Construction deals, the highest in a decade

135%
Increase in Manufacturing M&A value
OFFSHORE REGION & FUTURE DRIVERS

The offshore region typically enjoys a late-year surge, with companies that have been on the side-lines watching developments keen to make their move before the year is out. However, 2018 saw a quieter few final months. The escalating price of companies had done little to dampen the enthusiasm for M&A earlier in the year but the late year stock market sell-off appears to have instigated a slow down.

As a result, deal volume for the offshore region is down 5% this year, but still saw 2,781 deals, which is higher than every year prior to 2015 and ranks the offshore region ahead of European powerhouses such as Spain and the Netherlands. The total amount spent on offshore companies, was USD 344 billion, over USD 100 billion more than in 2017 and the second highest annual figure on record. The average deal size was USD 124 million, significantly higher than any other world region.

The number of capital increases plummeted in the second half of the year with the void filled by out-and-out acquisitions. These types of deals made up nearly half of all offshore M&A activity since July. Investing companies are no longer content to just take a seat on the board, but want full control of an asset in order to gain a competitive advantage over rivals.

Over the course of the year, investors from almost 60 countries across the world have targeted offshore companies. China and the UK continue to be major investors into the region, despite respective local concerns in relation to overseas investment and Brexit. Significant deal value has also come from the 67 group of countries.

OFFSHORE DEALS BY VOLUME & VALUE:

<table>
<thead>
<tr>
<th>Year</th>
<th>USD</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>344bn</td>
<td>2,781</td>
</tr>
<tr>
<td>2017</td>
<td>285bn</td>
<td>2,932</td>
</tr>
<tr>
<td>2016</td>
<td>284bn</td>
<td>2,788</td>
</tr>
<tr>
<td>2015</td>
<td>428bn</td>
<td>2,960</td>
</tr>
<tr>
<td>2014</td>
<td>219bn</td>
<td>2,771</td>
</tr>
</tbody>
</table>

THE YEAR AHEAD

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

CROSS-BORDER DEVELOPMENT.

Despite some nations raising new barriers to foreign investment in order to address national security concerns, cross-border activity is increasing rapidly, with companies prepared to look further afield for the right target. A prolonged trade war and bigger regulatory hurdles could curtail this development.

FINDING THE RIGHT PRICE.

The recent market turbulence could make it difficult for buyers and sellers to come to an agreement on price. It remains to be seen if companies consider their targets to now be more affordable given their recent dip in share price or whether caution over the broader market performance will prevail.

PRIVATE EQUITY STRENGTH.

The private equity market is playing an increasingly bigger role in M&A. Sponsors have raised significant amounts of new capital and have been very active in both buying and exiting portfolio companies. Stock market fluctuations may actually benefit the search for value opportunities.

SECTORS MERGING.

The rapid development of technology is blurring the boundaries between sectors and strengthening links up and down the supply chain. Shared data and technology offer the opportunity to make supply lines more efficient while cross-industry collaborations are becoming increasingly feasible.

EXPANDING CUSTOMER BASES.

Organic growth alone is unlikely to be enough to make significant market gains. Companies will be keen to make deals to expand their customer bases in existing and new geographic markets or to expand and diversify their range of products and services by moving into complimentary sectors.

TECHNOLOGY REASSESSMENT.

After the tech euphoria of the last few years, there’s a growing realisation that it is not the solution to all problems. From self-driving cars to blockchain, there is an acceptance that while these developments are undoubtedly significant, their transformative effect is likely to be more measured. The next wave of technology will be centred around artificial intelligence and it remains to be seen how this will be developed.
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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 swifly 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 analysis is 1 January 2018 to 31 December 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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