# Strategic M&A Outlook

Spring 2017

AVONDALE
STRATEGIC M&A

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# STRATEGIC M&A Critical to successful business leaders

Our world is evolving at an exponential rate and globalisation, innovation and emergent technologies are transforming competitive complexity. In an ever-changing corporate landscape, successful leaders recognise that M&A is critical to business strategy – whether acquiring, creating shareholder value, merging or selling.

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# **PREFACE:** Time to think strategically about M&A

As the global business environment grows ever more complex, having a robust growth strategy in place has never been more important – especially when it comes to planning a merger or acquisition. The 2017 Avondale Strategic M&A Outlook report explores the different challenges and opportunities surrounding M&A today and what this means for your business. The analysis, strategies and advice discussed will help your business to leverage current market trends to allow you to develop competitive advantage and help you grow your business via M&A in the right way. We hope that you find this insight useful.

## New priorities in a challenging market

A combination of unprecedented technical change, globalisation, workforce demands and cross-sector fertilisation are increasing disruption, consolidation and complexity. Developments in the political sphere, such as Britain's election on June 8, continue to hamper fast growth in the West, and drive economic uncertainty. As such, companies will need to become more agile and adaptable in terms of how they operate; their leaders more innovative and outward thinking. With developed markets continuing to deleverage, we are at the start of a prolonged economic slowdown across the world's advanced economies; one that looks set to persist well into the next decade and beyond. Organic growth will be increasingly difficult to achieve and, blessed with low borrowing costs and strong cash reserves, companies will continue to turn to acquisitions to create competitive advantage. Our research shows that over half of mid-tier company leaders are seeking to pursue an acquisition or a sale over the coming 12 months, placing M&A and shareholder value strategy centre stage, as businesses reinvent and rethink in response to deep environmental shifts.

## An intelligent M&A strategy is critical

Increasingly, we are seeing a shift away from big-ticket, scale acquisitions, with companies favouring strategic deals that offer greater long-term value. With the need to disrupt and gain competitive advantage in consolidating markets, acquisitions will no longer be based purely on financial modelling, but rather on a combination of synergy, economies of scale and shareholder value. More than ever, companies will need to work on both finding the right transactions, and on the time-consuming process of creating transparent deal structures that deliver for all parties. In this environment, having a robust M&A strategy in place will be crucial.
A repeatable model built upon a disciplined M&A capability creates value.

**Kevin Uphill**

**Chairman**
**Avondale Corporate**

# GLOBAL M&A TRENDS – A Top-Down View

## M&A Takes Centre Stage

Despite forceful political and economic headwinds, the global appetite for M&A remains robust.

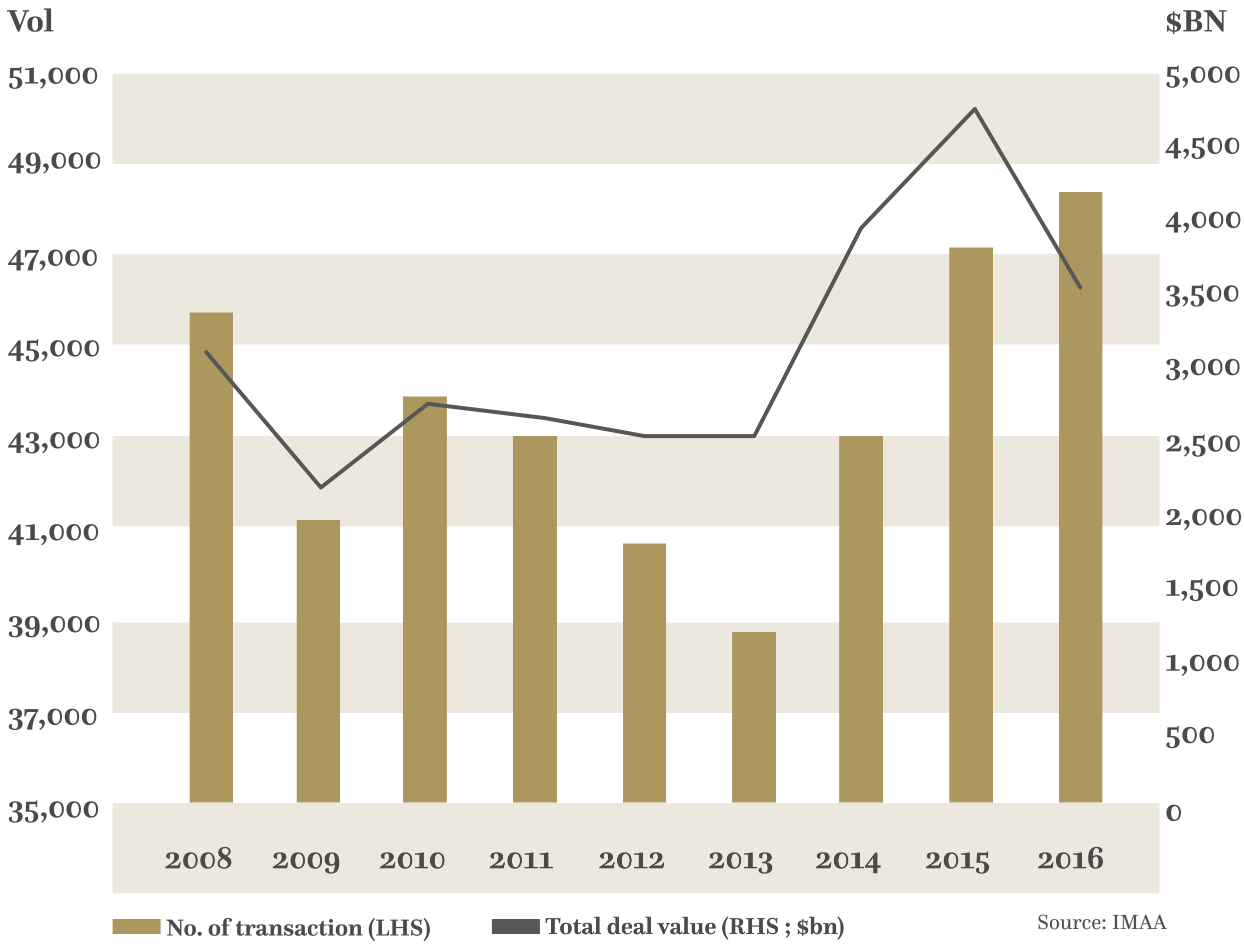
Having fallen by more than a quarter during H1 2016 (compared to 2015 levels), global deal volumes recovered to reach $3.51 trillion (£2.8 trillion) over the year as a whole, according to the Institute for Mergers, Acquisitions and Alliances (IMAA) data. Although this figure represents a sharp contraction compared to equivalent 2015 volumes, it is roughly on a par with 2014 levels, and is healthy in comparison to previous years.

The UK M&A market performed better than expected in 2016. According to IMAA 3,521 M&A deals were recorded in 2016, with a combined value of £239 billion. Whilst down on 2015 levels (3,677 deals worth a combined £350 billion), this activity saw the UK retain third position in terms of global deal activity, behind the US and China.

Inbound deal volumes into the UK were a significant contributor. Despite the spectre of Brexit, a strong economy combined with stable financial, regulatory and legal systems and a low corporation tax rate, means the UK continues to be seen as an attractive market for cross-border acquisitions.

With the added incentive of a weaker pound, the fundamentals mentioned will see overseas buyers continue to bring forward longer-term plans for expansion. Data from early 2017 shows that the UK M&A market has started the year briskly, with the total value of deals involving UK firms reaching £27.8 billion during the first month of 2017 – a 260% increase over January 2016 and, at the time of writing, the highest annual deal value since 2008.

### More deals, lower values: global M&A transactions 2008-2016




Source: IMAA

## Superabundance of Capital is Fuelling M&A Activity

Facing a lack of attractive investment opportunities, businesses are having to come up with new ways to spend their cash – M&A has emerged as a key outlet.

Company balance sheets are the healthiest they've been in many years. Indeed, the recent IoD/ Avondale survey found that around 45% of company leaders are using working capital as their primary source of finance. Pent up demand, coupled with a high concentration of "peak savers" (the 45-59 age demographic as identified by the Harvard Business Review) within the world population has left companies awash in capital.

According to Bain's Macro Trends Group, global balance sheets are forecast to grow from $600 trillion in 2010 to $900 trillion by the end of the current decade (when measured in 2010 prices and exchange rates). By 2020, worldwide financial assets will be equivalent to around 10 times global GDP. At the current rate of growth, Bain projects global financial assets to surpass a quadrillion dollars by 2025.

While emerging market assets continue to expand, around 60% of global working capital is retained on the balance sheets of Western companies.

In the UK this trend has been accentuated by anxiety over Brexit as businesses, waiting for the dust to settle, hoard cash on their balance sheets. However, fears that this might induce a government tax levy on capital means companies may need to dispose of their cash before it's stripped from them. In the UK, as elsewhere, high cash volumes are acting as "rocket fuel" for M&A activity.

> "Our entire industry is going through unprecedented change. We need to make quick changes so that we see an influential impact on our revenue."

## Mid-Tier Market Comes into Focus

Increasingly, major corporations are seeing the long-term potential of the lower and mid-tier market when it comes to acquisitions.

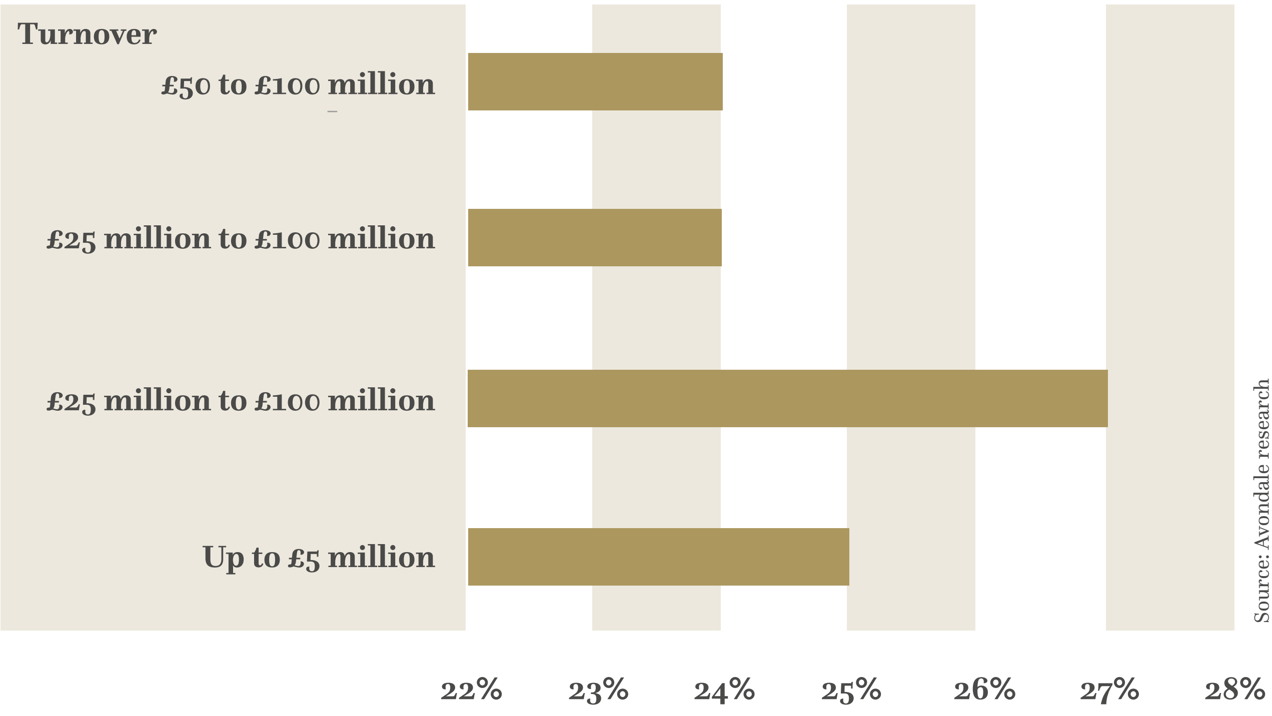
Stoked by cheap debt, the past few years have seen a surge in big-ticket, "scale" M&A deals with a focus on industry consolidation. However, with scale deals failing to generate substantial returns over a long period, corporates are looking increasingly to smaller acquisitions. While presenting fewer immediate synergies, small and mid-tier deals can offer an opportunity to introduce new products, ideas and teams in order to generate competitive advantage.

Large buyers are finding that smaller deals can provide greater flexibility as well as opportunities to harness new industry developments and technological advancements. Though considered riskier at the outset, smaller, strategic deals typically provide higher returns, delivered over a longer period. The Harvard Business Review estimates that small acquisitions typically generate additional annual shareholder value of between 8.2% and 9.3% over a number of years, compared with the 4.4% average of so-called "big-bet" deals.

While global M&A deal values fell by around a quarter in 2016, the number of deals that took place increased by about 1% to 4,754, indicating increased deal activity at a lower and mid-market level. The mid-tier market is particularly healthy in the UK, where the six months up to the end of September 2016 saw the UK lower-mid-market post its strongest six-month result since 2008.

"Previously we saw deals below £50 million as a distraction, but now we see them as core to growth and agility."

### A healthy mid-market: survey respondents by turnover



# A Growing Interest in Cross-Sector Deals

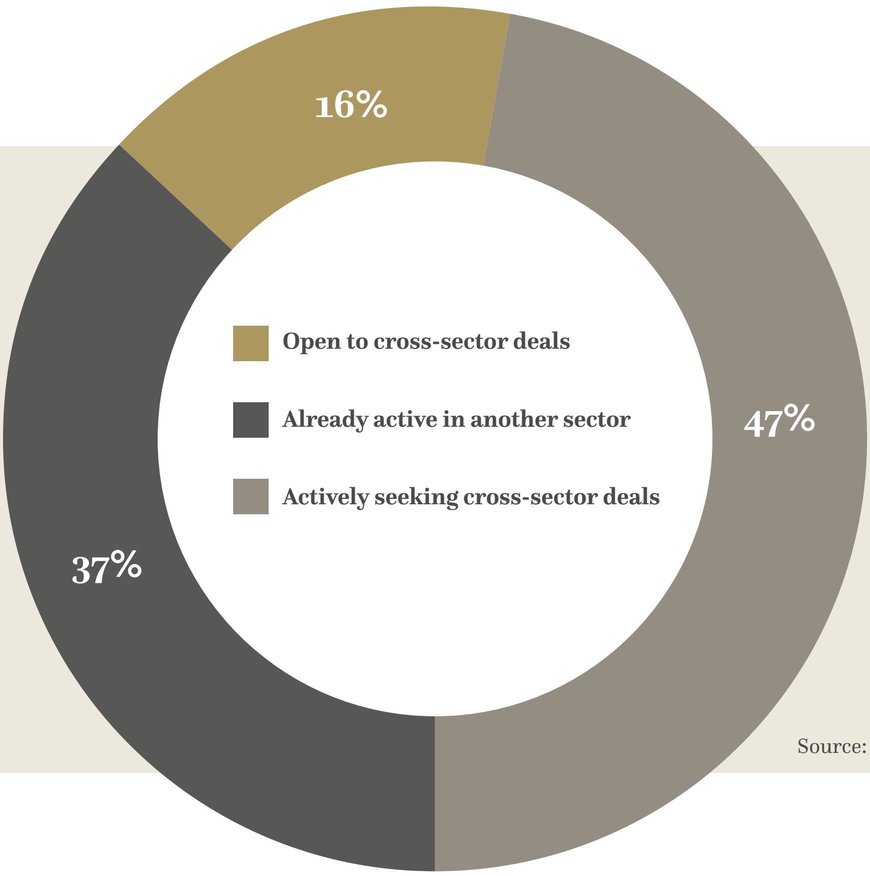
Companies of all sizes are increasingly looking for deals outside their own industries, in order to drive strategy and remodel flagging business structures and sector positions.

This is resulting in bold M&A approaches into adjacent and synergistic industries. The companies we surveyed were broadly open to opportunities in new markets, with nearly 50% actively on the look-out for cross-sector acquisitions.

Convergence is especially prevalent in sectors such as technology, media and entertainment, where there is already significant industry cross-over. Meanwhile, rapid digital transformation in financial services is creating synergies between the finance and technology sector, with a recent study by IDC and SAP finding that one in five banks were considering FinTech companies as potential acquisition targets.

The market appears to favour a cross-sector M&A approach in order to secure advantage. Talent requirement may also be an important cross-sector driver, with leaders looking to add niche or specialised knowledge to their teams in order to drive strategy.

## Crossing over: cross-sector activity of survey respondents




Source: Avondale research

# Dealmakers Venture Overseas

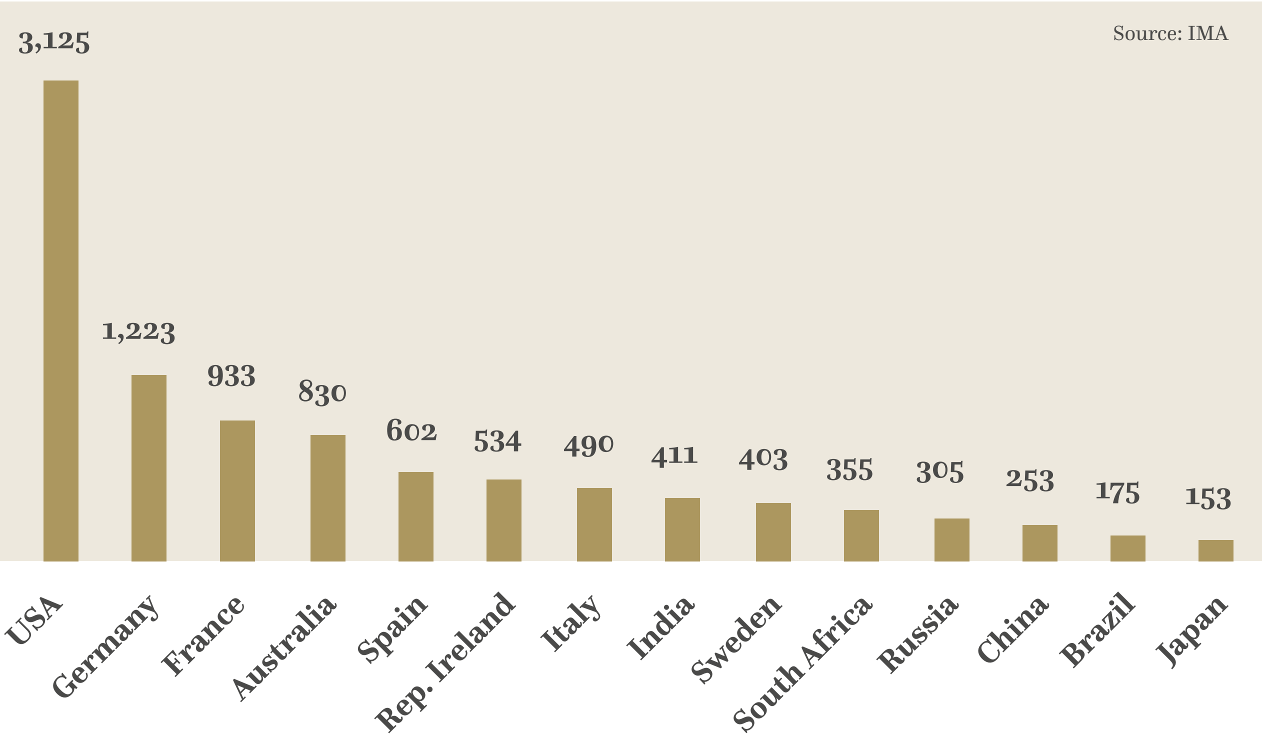
Having surged to a record $1 trillion in 2014, geo-political headwinds saw a slump in global cross-border M&A deals during the early months of 2016. However, cross-border activity has since started to grow again. Indeed, looking at the year as a whole, more than 29% of the total global M&A value was generated through cross-regional deals in 2016.

While the UK geo-political landscape is in a state of flux, Britain remains an attractive market for overseas buyers, with its appeal as an investment destination further enhanced by the weak pound. UK targeted cross-border M&A reached $292 billion in 2016, up from $108.1 billion the previous year. This was slightly eclipsed by US-targeted cross-border volumes, which rose to $392.7 billion last year, up from $274.4 billion in 2015.

UK outbound buyers are also increasingly active. UK companies announced 903 acquisitions worth $107 billion in 2016, representing a year-on-year increase of 40.8% in value terms. Though the US and the EU remain key destinations for British buyers, dealmakers are increasingly looking to the high growth potential of emerging markets, with companies in India, South Africa and China featuring in more than 1,000 UK outbound transactions occurring during 2000-2016.

Mid-tier deals have traditionally struggled to work successfully across borders. However, this is becoming less of an issue with the onset of globalisation, and with executives increasingly focused on securing new territories. Increasingly, smaller companies possess the experience, data and planning models to mitigate risk and complete cross-border M&A to fuel strategic growth.

## Crossing borders: UK outbound deals by destination (2000-2016)



## The Rise of Private Equity-Led M&A

Private Equity firms are setting the bar for dealmaking flexibility and expertise.

The role of Private Equity (PE) has been steadily growing since the 1990s, with PE buyouts now responsible for roughly a quarter of global acquisitions. There are several possible reasons for this trend:

1. PE firms typically enjoy stronger relationships with financial advisers. Many also boast superior in-house deal making capabilities, particularly with regard to pre-merger planning and post-deal integration, giving them an edge over traditional trade buyers.

2. Their multinational experiences makes PE firms generally well positioned to manage cross-border M&A transactions, particularly where an acquirer is actively sought, and the target is from a country with poor corporate governance.

3. With the recent proliferation of start-ups, PE firms are often better placed than trade buyers to facilitate the transition from an entrepreneurial enterprise, often run by the founder, to becoming part of a larger acquirer.

4. An abundance of capital chasing higher yields and potential tax breaks has led Private Equity inflows to swell considerably

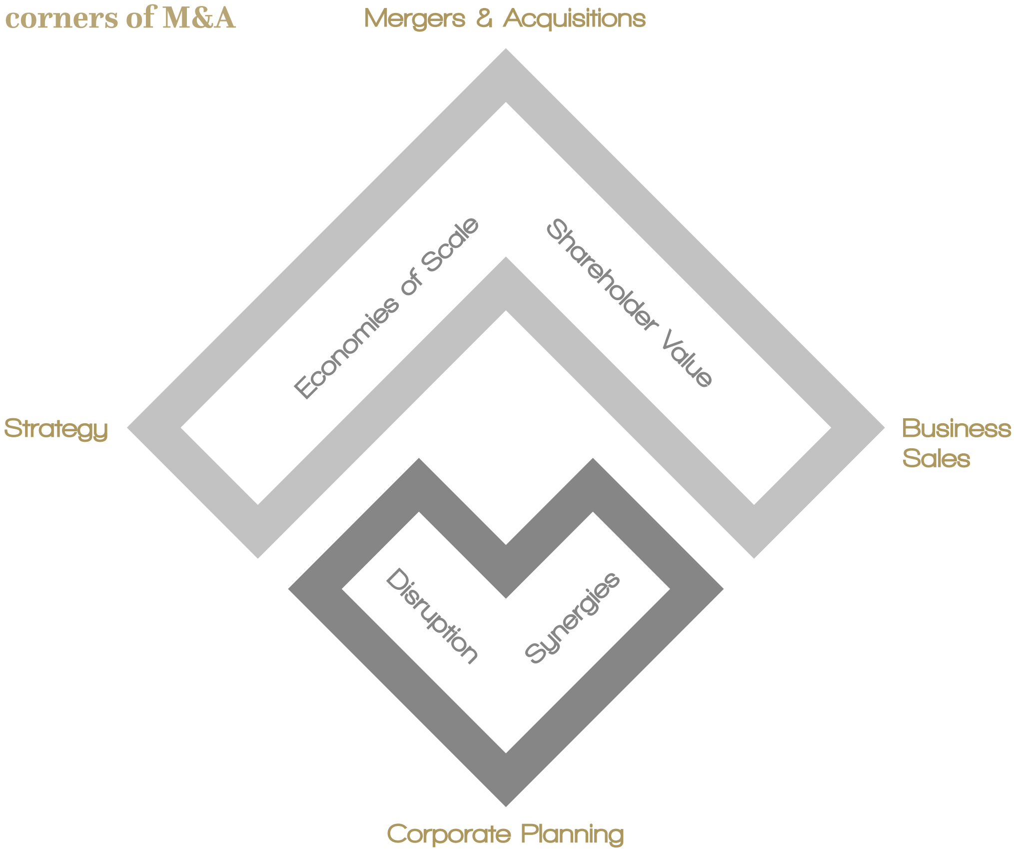
With a cautious lending environment making it harder for trade buyers to raise funds for acquisitions, the role of private equity funds in global M&A markets is likely to continue to grow. Technology is expected to remain a significant target for private equity firms over the months ahead, with providers of cyber security, cloud computing and Software-as-a-Service predicted to be key acquisition targets

> "UK companies announced 903 acquisitions worth $107 billion in 2016, representing a year-on-year increase of 40.8% in value terms"

# Is Now the Right Time for an Acquisition?

**Acquisitions can be a vital component of business strategy. However, for an acquisition to truly add value to a business, it must fulfil a range of requirements. The best acquisitions are those which display 'The Four Corners of M&A' – generating economies of scale and synergy, while also allowing the buying company to keep pace with emerging trends and increase shareholder value.**

## The four corners of M&A




In the event that a deal fulfils each of these requirements, it is then very much a question of timing – namely, whether the buying company is fully equipped to undertake an acquisition. Therefore it is important to consider the following questions, before actively pursuing an acquisition:

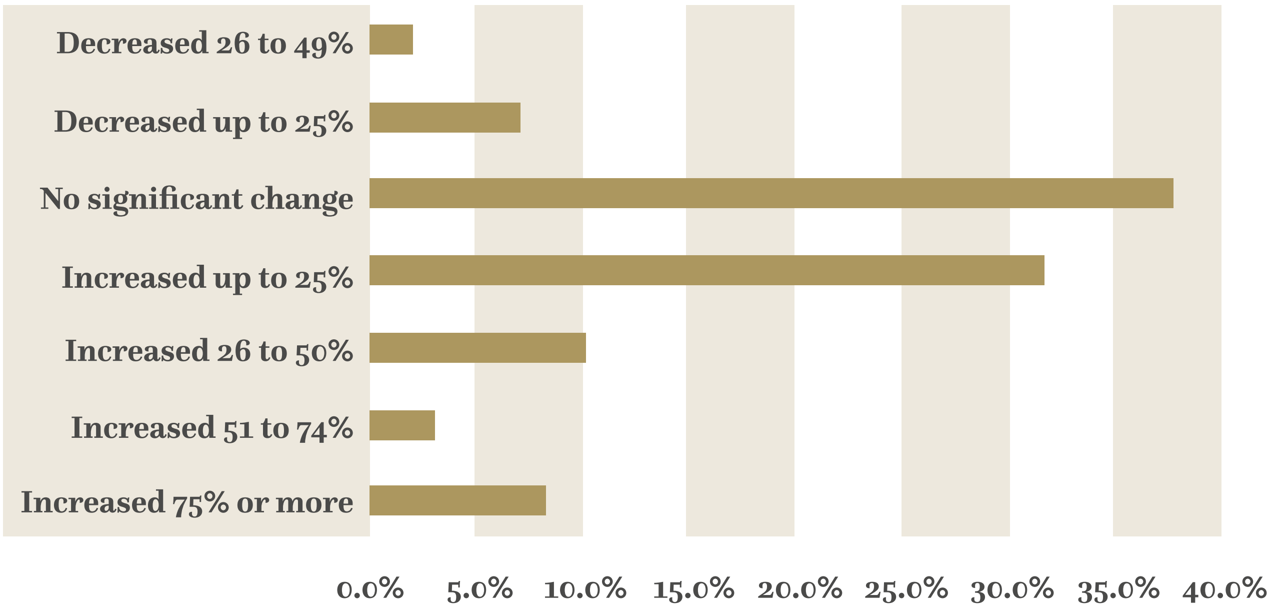
- Is there a robust growth strategy in place with well-defined objectives and timescales? It is easy to be swayed by the attractions of an acquisition; however, it is essential that any potential deal is in keeping with the original goals of the organisation and will not throw these off course.
- Is the entire organisation (HR, IT, finance, management, systems and processes) adequately structured to facilitate a successful merger with another company? Can it support new staff and systems?
- Are the capital investment requirements and funding facilities realistic? These details must be carefully examined before launching into an acquisition project, so as not to fall at this hurdle further down the line.
- Are the internal and external resources in place to facilitate an acquisition and subsequent integration?
- Does the company have the skills to target suitable acquisition targets? And does it possess the technical expertise to structure an effective deal?
- Is the target list concise and does it only include companies that can truly generate value? This will allow you enough time to engage properly with quality targets and to sweetheart them where necessary.

# MARKET PULSE – What Buyers And Sellers Are Thinking

## Organic Growth Routes Proving Harder to Find

Of the executives we surveyed a narrow majority (52%) reported positive turnover growth of some description during the past 12 months. Less than one in ten (9.1%) said revenues had fallen during the period.

**Challenging times: % change in company turnover of respondents during past 12 months**




Source: Avondale/IoD Survey, March 2017

However, nearly 40% of our survey cohort reported that there had been no significant change in turnover during the previous 12 months, while only 11.5% reported growth of 50% or more. The results illustrate the difficulties leaders are currently facing in trying to grow their business through organic means., placing M&A centre stage for growth.

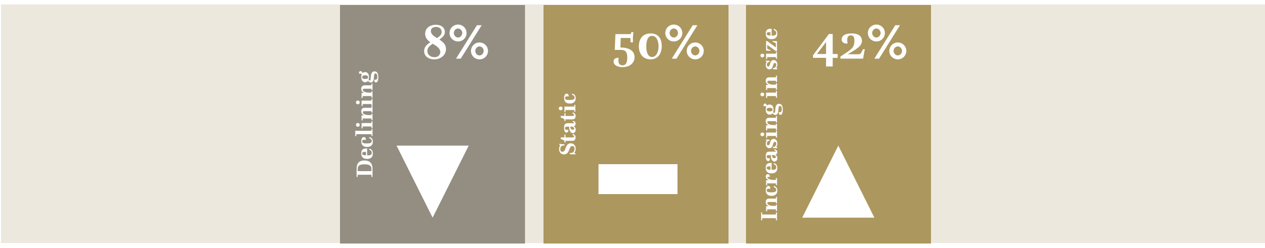
> "Nearly 40% of executives surveyed reported that there had been no significant change in turnover during the previous 12 months."

# A Clear Appetite for M&A

With organic growth increasingly pressured, companies are turning to acquisitions to create competitive advantage.

Increasingly, executives appear to be open to acquisitions as a conduit for growing their business. Indeed, nearly two-thirds (64.3%) of leaders participating in the recent Avondale/ IoD survey said they would consider an acquisition. In particular, our research shows a growing appetite for M&A among executives at a small and mid-tier level. The buyers and sellers taking part in our survey were overwhelmingly confident that M&A would remain centre stage through 2017. More than 90% of the executives we interviewed predicted stable or increasing activity and volumes.

## Thinking positive: executives' view of 12-month M&A outlook



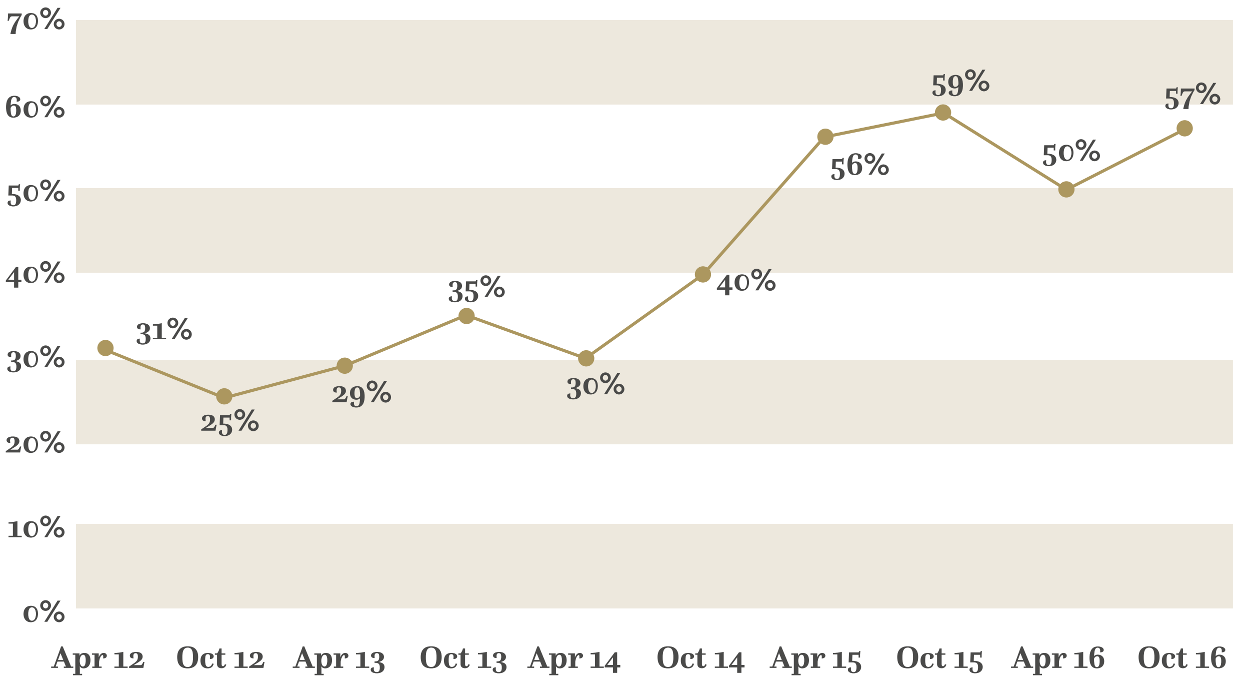

Source: Avondale research

There is a clear determination to counter low-growth in a disruptive environment. More than half of the executives interviewed (57%) were actively planning to make acquisitions over the coming 12 months, up from 50% in the run-up to Brexit (see below).

57% of executives surveyed by Avondale planned to make acquisitions in the coming 12 months.

## Great expectations: respondents expecting to pursue an acquisition within 12 months

Source: Avondale research



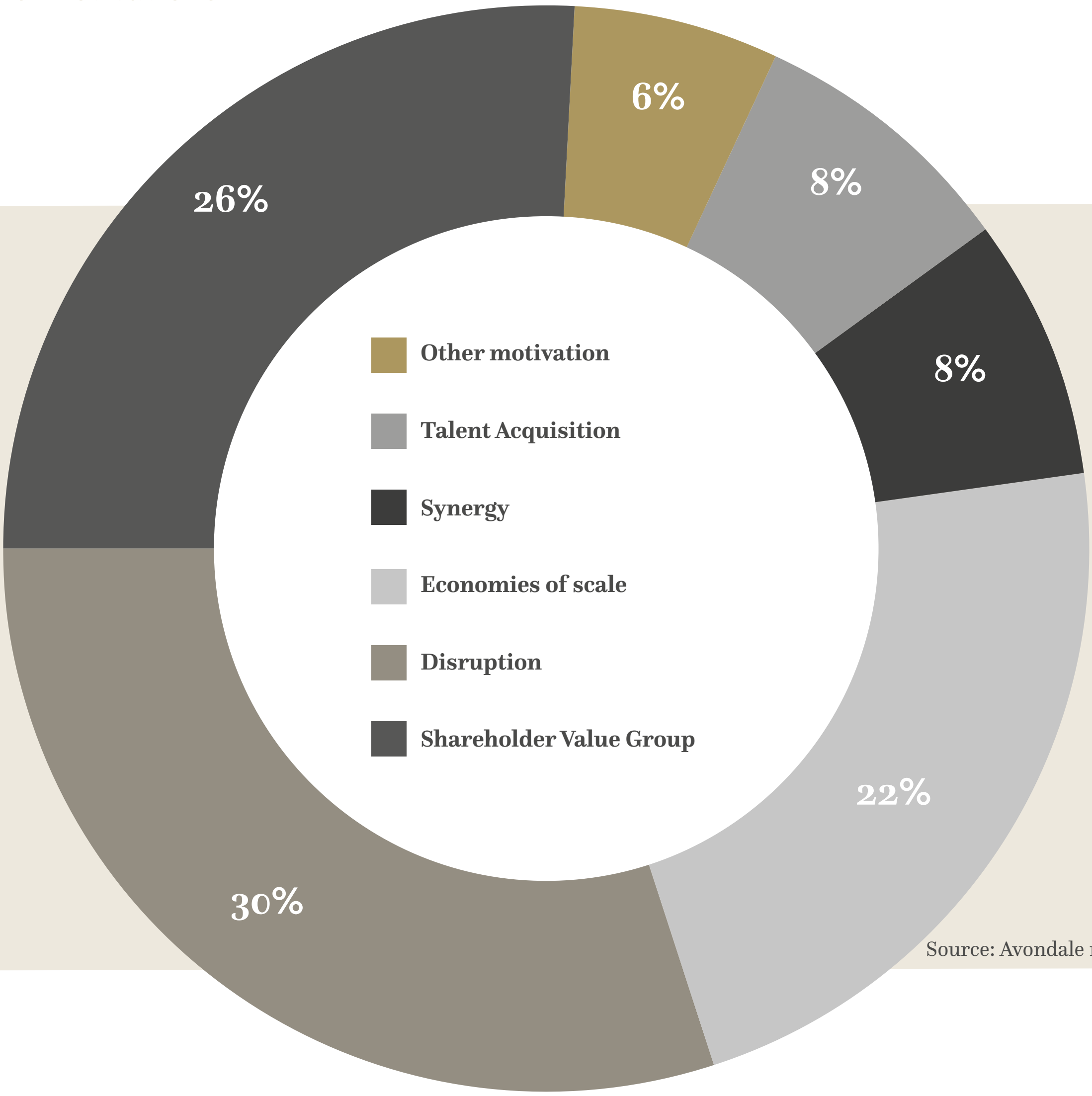
## Buyer Motivations Changing

Our research shows that the traditional drivers of merger and acquisition activity, such as economies of scale and synergy are increasingly being overshadowed by other motivating factors. While they remain important drivers (they accounted for 30% of deal activity among the executives we spoke to), a far greater proportion of our cohort (56%) cited disruption or shareholder value growth as being their primary motivators.

This highlights that strategic buyers are increasingly focusing beyond short-term profits and trying to find ways to create long-term growth.

"56% of executives cited disruption or shareholder value growth as the primary motivator behind an acquisition."

**Buyers' motivations**




Source: Avondale research

## Disruption Emerging as a Key Driver

For most industries, the next five to ten years will be a period of intense digital transformation, as new, disruptive technologies force companies to review and adapt their product offering. The International Data Corporation (IDC) predicts that two-thirds of Forbes Global 2000 leaders will have made digital transformation their core strategic focus by the end of 2017.

Many companies are increasingly looking to acquisitions as a means of harnessing innovation and technological advancement. As well as bolting on new technologies, acquirers are snapping up the industry's top talents and keeping them out of the reach of competitors. While the likes of Google – with 221 start-up founders joining its ranks between 2006 and 2014 – lead the way in disruptive acquisitions, smaller companies are also getting in on the act.

The Institute of Mechanical Engineers's acquisition of Amber Train in 2016, through Avondale, is a strong indicator that even traditional trade bodies are working hard to change their outlook in order to stay ahead of the competition.

"Over 70% of executives placed shareholder value above short-term profits as a motivating factor in pursuing an acquisition."

## Placing Shareholder Value over Short-Term Profits

In an uncertain economic and political climate, executives are pursuing deals that offer the best potential for long-term shareholder value creation, rather than looking for short-term profits.

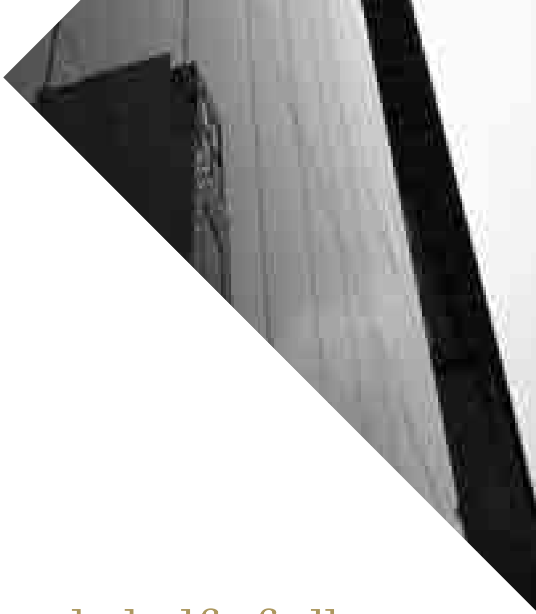
In 2017, most firms continue to support the interests of shareholders, who usually want companies to use every legal means to maximise their profits and capital return on share value. Indeed, over 70% of the executives we spoke to expressed interest in creating shareholder value.

### The key equity value influencers

The majority of leaders surveyed by Avondale selected recurring sustainable revenue as the most important driver of equity shareholder valuations, with intellectual property and growth prospects in close parallel.

The main multiple-influencer drivers chosen by respondents were:

1. Recurring revenue, contracts and sustainability
2. High expansion prospects and growth record
3. Sustainability
4. Intellectual property
5. Solid systems
6. Management track record



## Lacking an Exit Strategy

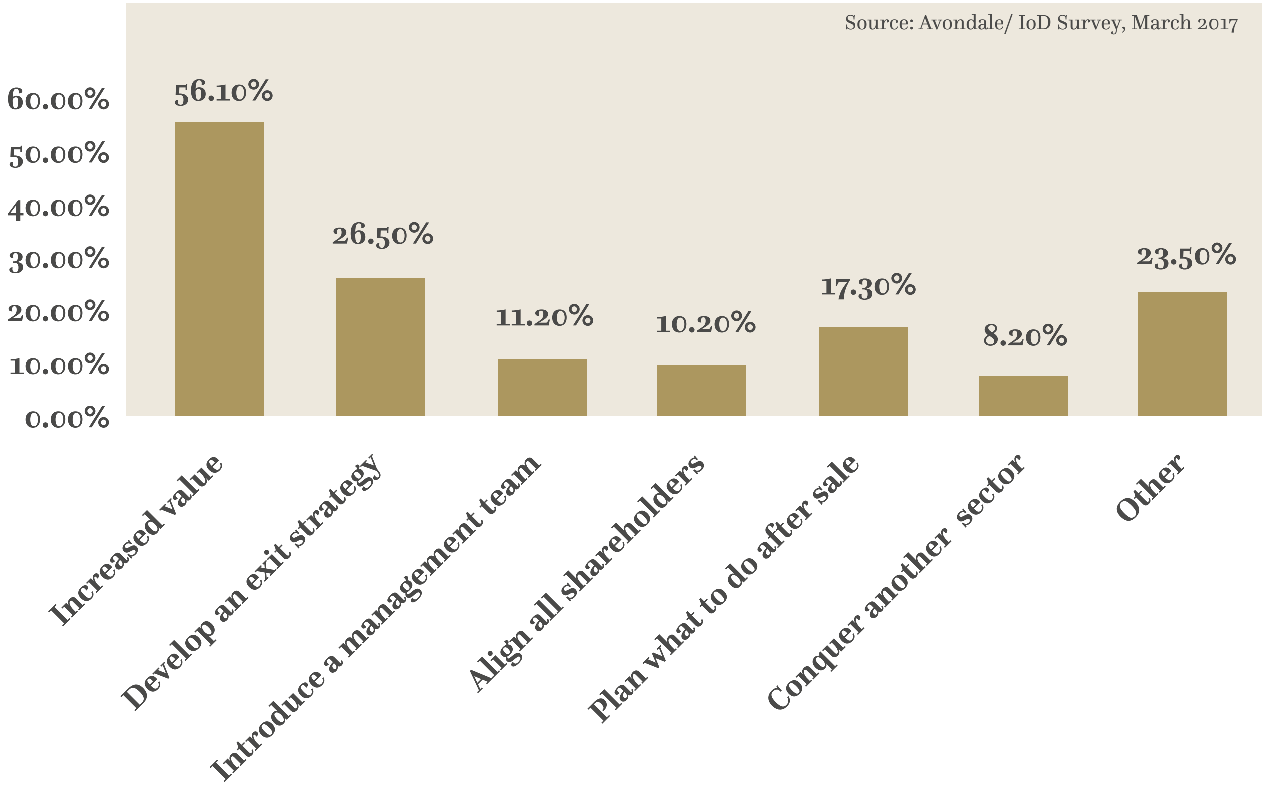
Having a clear strategy is just as critical from a seller's perspective as it is to a buyer. The results from the Avondale/ IoD Survey showed that more than a quarter of participants (26.5%) felt the need to develop an exit strategy before considering a sale. A further 17.3% lacked a clear plan for what to do after the sale. Nearly half of all respondents (48%) admitted to not having an exit strategy in place.

The findings emphasise the importance of preparing rigorously for a sale in order to maximise value. In 2016, the companies that Avondale guided through the deal process were able to achieve a 20% higher than forecast deal value.

Sellers would be wise to prepare carefully to leverage today's "acquisition-hungry" market and to drive value even further.

> "Nearly half of all survey respondents admitted to not having an exit strategy in place."

### Looking for the exit: reasons causing business owners to defer a sale



# Identifying and Approaching Targets

Successfully identifying and approaching targets for acquisition is critical to ensuring long-term deal success.

## Quality, not quantity

Compiling a list of potential targets is an essential first step in pursuing an acquisition. Generally speaking, the shorter the list the better. Buyers with a firm understanding of their own strategy will be able to determine the targets able to add value, and will take the time to have quality conversations with these companies and to develop a dialogue over a sustained period.

## Keeping an open mind

While buyers will instinctively veer towards what they know best, cross-sector deals have the potential to deliver far greater long-term value than scale deals focused on convergence and/or synergies. However, recognition needs to be given to the fact that preparing for cross-sector deals requires additional time and resources.

## Leveraging outside knowledge

Appointing an external adviser to oversee the deal process can offer significant advantages. The adviser will be able to use extensive intelligence resources and leverage relationships within the global M&A community to ensure that "hidden" sellers as well as active sellers are identified. They can provide a greater quantity and higher quality of acquisition prospects, while minimising research and management time.

## Targets not to be underestimated

Many buyers also fall into the trap of underestimating the company they are looking to acquire, which can create significant issues in terms of post-deal integration.

## Looking beyond the numbers

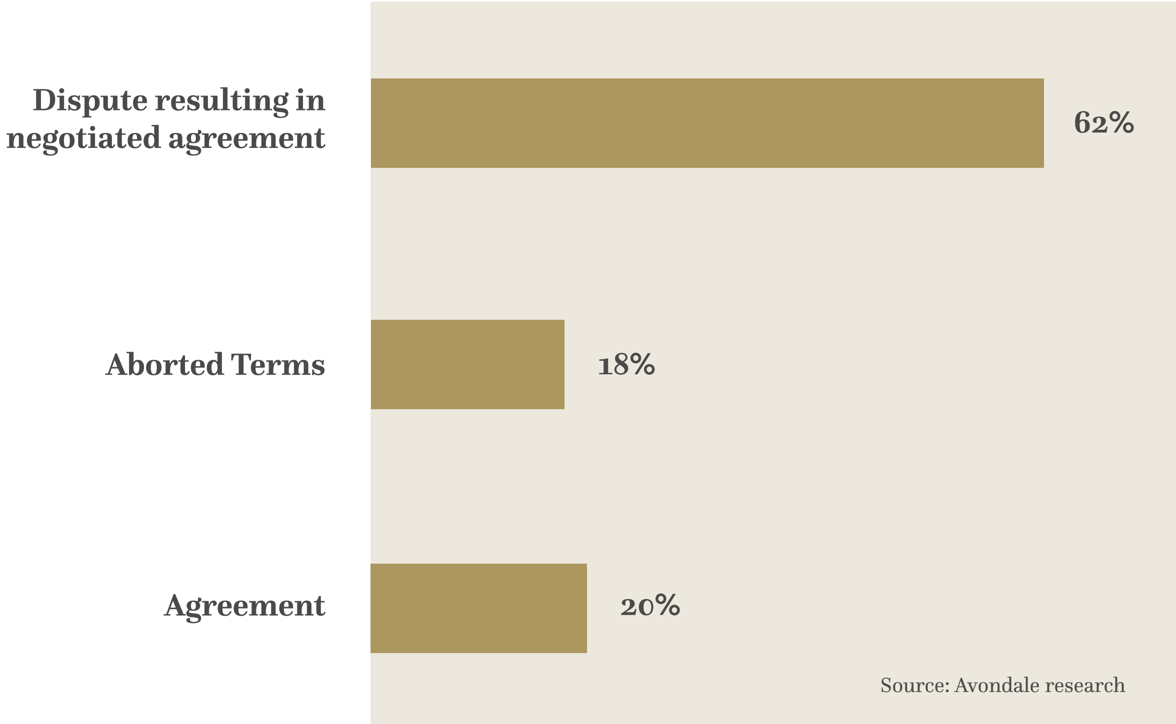
When evaluating a potential acquisition prospect, many executives make the mistake of focusing too heavily on the financial side of the deal, investing in financial due diligence while neglecting to undertake the commercial due diligence. The latter is key in helping to identify how to best utilise the value of the deal. Put simply, immediate ROI should not be the only driver.

## Payment Terms Prove a Stumbling Block

Nearly 62% of the executives we spoke to during our research had disputed balance sheets in transaction drivers during the past year. Perhaps more worryingly, 18% had aborted transactions over balance sheet negotiations. From this, we can infer that more clarity is needed at the start of the deal with regard to how balance sheets are handled during the transaction.

"56% of transactions consulted upon by Avondale in 2016 used a locked box method to finalise Net Asset Value."

### Breaking down: where negotiated payment terms arise




## Dealmakers Turn to Locked Box Mechanisms in Uncertain Times

2016 seems to have been the year that locked box mechanisms overtook simpler net asset value deals. Indeed, 56% of transactions consulted upon by Avondale in 2016 used a locked box method to finalise Net Asset Value, with the majority of vendors retaining the profit after the locked box date.

In uncertain times, it seems that the certainty and expediency offered by the locked box – avoiding, for instance, time and expense in negotiating and drawing up completion accounts – makes this mechanism increasingly attractive to both buyers and sellers.

Under a locked box mechanism, the economic risks and returns are effectively transferred to the buyer at the locked box date. Sellers still have their capital tied up and will continue to run the business to generate profits. This is usually dealt with by 'value accrual' based on 'cash profits' from the date of the locked box. Over 60% of the executives we spoke to were using this method, with the remainder agreeing an interest rate basis.

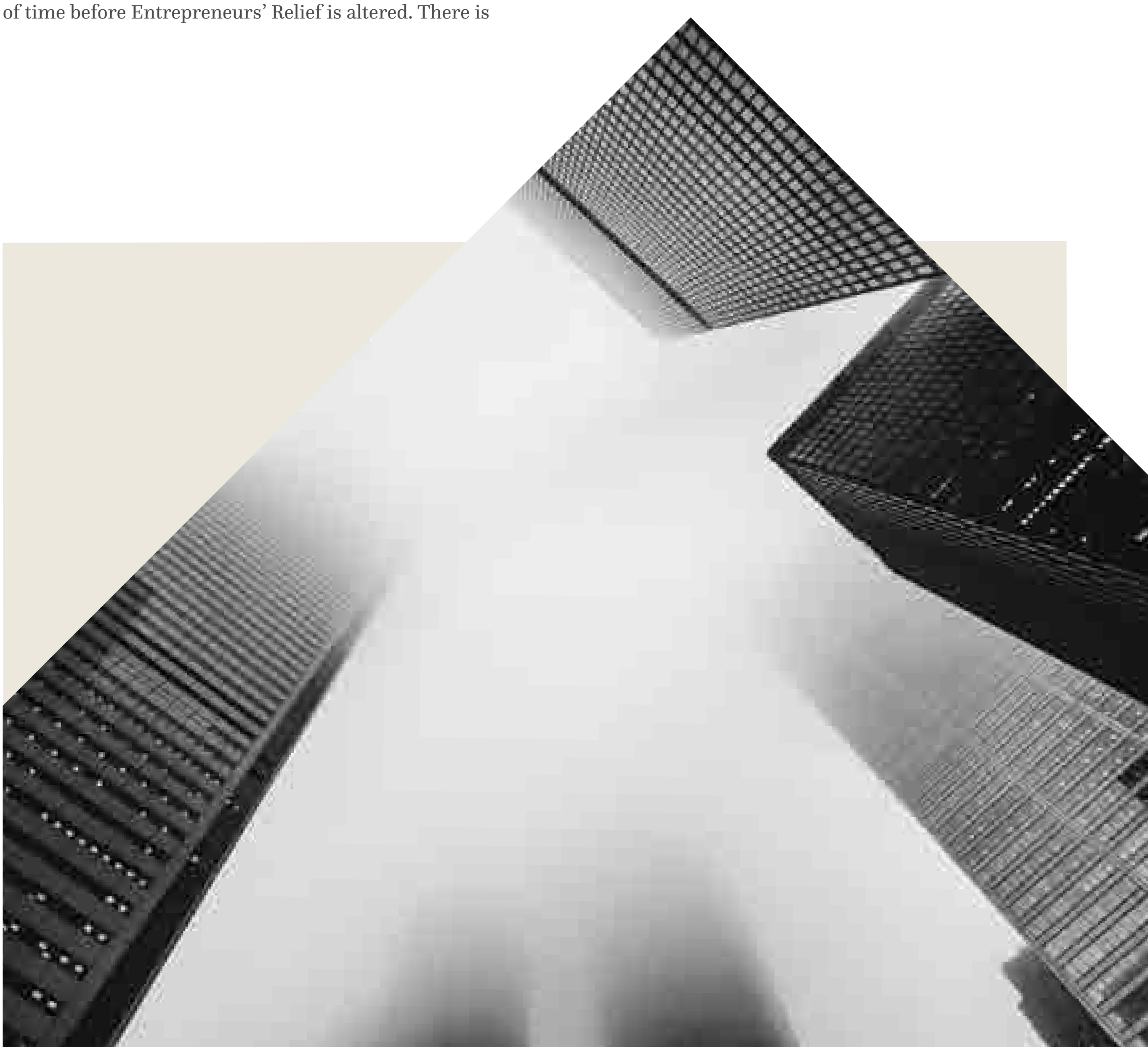
## An Evolving Tax Environment

A solid understanding of the tax environment is critical when planning a merger or acquisition. Global tax regimes vary; however, many offer allowances to assist with business Capital Gains. In particular, a review of Entrepreneurs' Relief ("ER") and Substantial Shareholding Exemption is critical when considering the UK M&A landscape.

Entrepreneurs' Relief on Capital Gains Tax has now been in force in the UK since 2008. ER enables individuals to sell their interests in most businesses and to pay tax at a preferential capital gains tax rate of 10%, instead of treating the proceeds as income. The aim is to aid entrepreneurship and to encourage reinvestment in business; however, in 2014 alone, the tax cost to the UK Treasury was £2.9 billion, significantly higher than £0.9 billion in 2008. Understandably, HMRC has tightened the rules in many areas; however, with the growing pressure to increase tax revenues, it may only be a matter of time before Entrepreneurs' Relief is altered. There is speculation that the government will do this by excluding cash reserves. A simpler option would perhaps involve reducing the lifetime relief limit from £10 million, or increasing the Entrepreneurs' Relief rate.

### Substantial Shareholding Exemption ("SSE")

Substantial Shareholding Exemption can also play an important role in selling a company. SSE is a long-standing relief from Corporation Tax available to trading companies who sell their shares in another trading company in which they have held at least a 10% interest of the ordinary share capital, for at least 12 months in the previous two years. Recent changes to the tax system have removed the previous requirement for the company making the share disposal to be a "trading" company (or at least a member of a "trading" group) both before and immediately after the disposal.

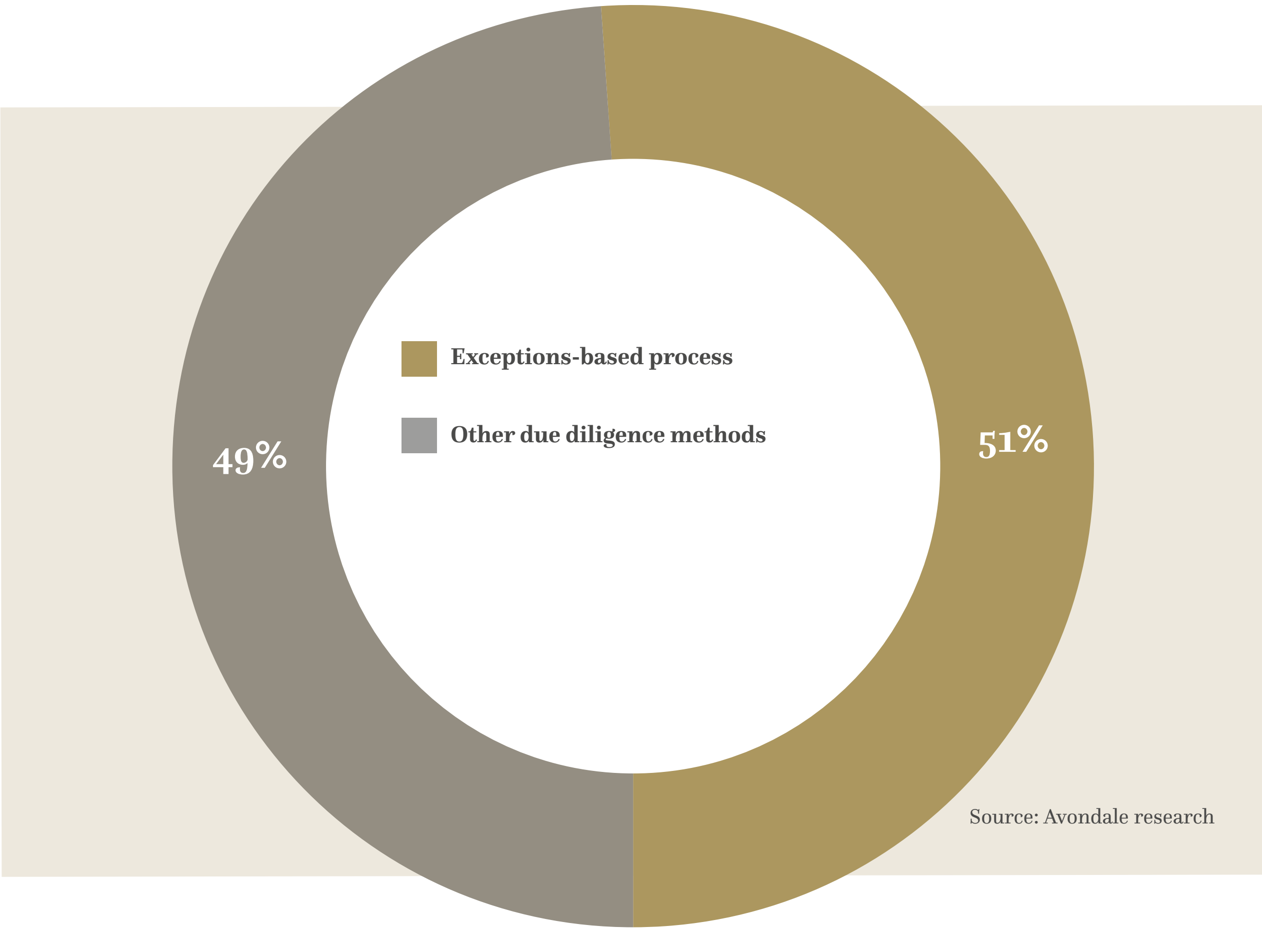


## The Legal and Due Diligence Side of Deals

While the legal requirements of conducting a merger or acquisition varies by jurisdiction, M&A remains an evolving landscape from a legal perspective. We are seeing a growing trend amongst buyers to seek to reduce the costs of deals and undertake a more focused, “exceptions” based due diligence process. Over 50% of company executives we spoke to have used this method; this is perhaps also reflective of the rise of the locked box and retention mechanism in mitigating risk and increasing transparency surrounding the company being purchased or merged.

Interestingly, warranty limitations are becoming increasingly seller-friendly. This is suggestive of a sellers’ market with a lack of quality assets for sale. In just a decade, the average cap has dropped from 100% of the purchase price to closer to 50% in the UK, and just 25% in the US. In addition, durations (aside from cases involving tax warranties) have typically dropped from three to two years. The focus on due diligence has gone beyond purely evaluating the legal and financial standards of a target, with many strategic buyers, quite rightly, also scrutinising factors such as customer relationships and team culture. Our surveys mirror other reports which identify these aspects among the highest potential fracture points after a deal and, despite issues surrounding confidentiality friction, these should continue to be a key focus when completing a deal.

### Due diligence methods of Avondale clients




Source: Avondale research

## Valuations

While there are several different valuation formulas out there, in unquoted businesses the most common method is to use a multiple of one year's "adjusted" and sustainable profits. The chosen multiple is the number of years it is considered acceptable to generate a payback on the investment. This will typically include the balance sheet at enterprise value with surplus cash and freeholds extracted from the value. This can be expressed as:

**Multiple x "Adjusted" Maintainable Profit per annum pre-tax including NAV debt free/ cash free = Likely Valuation**

In a world defined by abundant capital, intense competition and a shortage of quality opportunities, strategic buyers are increasingly looking beyond the numbers when it comes to determining the value of an M&A prospect. As we describe, the four corners of strategic M&A are economies of scale, synergy, shareholder value and a disruptive play. In recent years, disruption has become the lead valuation driver among these; with an awareness that brands, team, intellectual property and positioning can enhance the value of a proposition to a far greater extent than financials alone.

In the past, too many deals have been influenced by accountants and finance teams and their reliance on perceived acceptable multiples. A more appropriate question for executives today is **"Can we afford not to buy it?"** or **"How else are we going to generate the same capability of the target purchase"**. Overall valuations will seek to measure the trust that the market has in the business and its ability to create wealth.

# Developing a Robust Integration Strategy

Effective acquisition integration is critical to success and return on investment, and it is at this crucial stage of the deal that mergers frequently struggle or fail.

An integration plan doesn't need to be complex, but it must be thorough. Assembling a strong integration team is a crucial first step.

Staffing the team with representatives from both organisations (and all departments) will ensure knowledge share and encourage co-operation. Equally, early investment in integration resources will ensure clear understanding of risks, issues and enable realistic planning.

The integration process is complex and it may be worth employing a strategic advisor to assist you. Not only will they have in-depth acquisition experience but they will also be able to view the merger from a neutral standpoint.

Motivation is key to a successful change in management and integration. Be transparent about the entire process. Communicate your plans, keeping everyone constantly informed so that both new and old know what's coming and are reassured. Be aware that their perception of the transaction may change as the process develops; therefore, significant 1-2-1 engagement may be required.

## Integration Plan Check List:

- Put together a strong integration team.
- Constantly review progress and lessons.
- Define your integration objectives, revisit your growth strategy plan.
- Assess risk – what could go wrong?
- Incorporate risk prevention into your plan.
- Put together a prioritised action plan stating who does what by when.

A constant review of progress and incorporating lessons learnt is essential throughout the process.

# CONCLUSION: Five Core M&A Scenarios for the Year Ahead

## 1 The trend towards smaller deals is here to stay

### We see a continuing appetite amongst CEOs to take on strategic deals.

The IMF is forecasting global growth of 3.4% in 2017, significantly below the long-term average of 3.8% per annum, with growth averaging just 1.9% across advanced economies this year. Coupled with abundant capital and low interest rates, this environment can only drive demand for transactions as a vehicle for enhancing shareholder value. While the appeal of larger scale deals will continue to narrow, we expect to see healthy demand for strategic dealmaking at a low and mid-market level. With several hundred billion dollars in cash reserves expected to find their way back into the US following President Trump's repatriation amnesty, we also expect a bumper year ahead for US M&A – and this could have a knock-on effect in driving dealmaking around the globe.

## 2 Digital transformation and disruption will be key strategic drivers

### Companies of all levels and sectors are looking to technology to achieve competitive advantage and growth.

Technological advancement will continue to play a central role in driving M&A activity. The strong balance sheets of cash-rich tech firms will see the sector remain a hotbed of activity as larger players look to bolt on smaller disruptors. Meanwhile, as businesses become more specialised, the barriers to entry for potential competitors from across other sectors will rise. Often, the conclusion will be that if you can't beat them, buy them. In particular, we will see growing convergence between technology and industries such as financial services and media, as companies respond to the changing behaviours of their customers. These trends will see cross-sector deals continue to feature high on the agenda.

## 3 The UK will remain a dynamic environment for M&A

### The UK M&A market will continue to thrive, attracting overseas dealmakers.

The widely predicted slowdown in UK M&A activity has not happened, nor do we expect it to. The UK's robust economic and regulatory fundamentals will ensure it remains a bright spot for global M&A activity. We will continue to see foreign companies interested in buying or partnering with UK domestic companies, and particularly those with a global footprint and world-class capabilities.

## 4 A demand for cross-border expertise

### Buyers will be compelled to look overseas, but will need help to do so.

The next 12 months will be a fertile period for cross-border M&A as major geo-political shifts and slowing growth drive companies out of their localities in search of opportunities. China's well-capitalised businesses will continue to look for targets in Europe and the US, with Chinese outbound deal volumes likely to eclipse the record levels seen in 2016. Meanwhile, uncertainty around Brexit will force UK companies to broaden their focus and to look for opportunities for expansion around the world. With a protectionist in the White House and EU relations deteriorating, British buyers will have to cast their gaze further afield, to markets such as India, Australia and South Africa. A rise in cross-border deal activity will spark demand for advisers with cross-jurisdictional expertise and, in particular, those with an understanding of the legal, tax and regulatory issues.

# 5 Smarter, longer-term thinking will be required

**Executives will need to be more scrupulous around how they plan and manage the dealmaking process.**

Rather than seeking short-term profits, we believe executives will continue to pursue deals that offer the best potential for long-term shareholder value creation. However, as the economy continues to drag, it is likely that less dynamic companies will see values or at least deal structures soften as growth prospects weaken. By contrast, high-growth fast-track firms may find themselves in an increasingly small minority, with competitive bidding actually resulting in higher bidding as investors and companies actively seek disruptive plays in highly scalable sectors. With bank funding remaining in short supply, deal structure will be critical to realising full value. Leaders will need to dedicate more time and resources towards planning due diligence and to preparing sound post-merger integration strategies.



## The Strategic M&A Advisor of Choice

The strategic M&A Outlook exemplifies Avondale's commitment to business and economic success driven by new thinking to succeed and stay ahead in fluctuating markets.

As we've seen, M&A now firmly sits on the agenda for most companies, yet some may lack the required resources to gain advantage through a merger or acquisition. Strategic M&A, undertaken well, can act as a formidable agent for change and the delivery of sustainable growth and competitive advantage.

Avondale's specialist advisory team brings the very best from the corporate M&A world and combines it with unrivalled understanding, leadership, innovation and international deal-execution expertise. This results in a highly effective and tailored service for every client, totally focused on providing the best M&A opportunities and delivering optimum value.

**Contact us in confidence to discuss your ambitions.**

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