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# Global M&A Struggles To Keep Pace As Optimism Dims

By **Chelsea Naso**

Law360 (April 19, 2019, 5:05 PM EDT) -- Global mergers and acquisitions activity fell during the first quarter of the year, failing to keep pace with the busy start to 2018 and casting doubt on the outlook for the remainder of 2019 as private lenders say their optimism for deal-making is waning.

The overall number of deals inked globally in the first three months of the year reached only 2,558 transactions worth a combined $801.5 billion, compared to the 5,085 deals worth $943.5 billion signed during the first quarter of 2018, according to Mergermarket. That marks a 49.7% drop in global deal volume and a 15% decline in global deal value.

Deal activity is likely down globally for a mix of reasons, including difficulty keeping pace with the record year that was 2018, hesitation given the market volatility seen at the end of last year and early 2019, uncertainty due to trade tensions between the U.S. and China, anxiety about Britain's **anticipated exit** from the European Union, and the disconnect on valuations between buyers and sellers.

"I think people are taking a more cautionary position than they might otherwise," said Harry Broadman, a managing director at Berkeley Research Group LLC and chair of the consulting firm's emerging markets practice.

There has also been a decline in cross-border M&A activity, according to Mergermarket. The deals data firm notes that between 2015 and 2018, an average of 38% to 40% of announced deal activity was made up of cross-border transactions. During the first quarter of 2019, just 30.8% of global deal-making could be considered cross-border.

The slowdown in cross-border M&A was particularly evident in the handful of megadeals, or transactions worth $10 billion or more, that were inked during the first quarter of the year. Of the nine megadeals announced in the first three months of the year — down from 14 total in 2018's first quarter — only one was cross-border.

And of the quarter's five largest transactions, four involved a U.S. buyer and target. The largest of the pack was New York-based Bristol-Myers Squibb Co.'s $89.5 billion, including debt, **deal** for New Jersey-based pharmaceutical player Celgene Corp.

With the U.S. housing many of the quarter's largest deals, deal value for the region managed to keep pace. There were $414.2 billion worth of U.S.-targeted deals signed during the first quarter of 2019, just short of the $415.6 billion unveiled during the same stretch a year earlier.

Deal volume, however, dropped to 1,081 deals, marking the slowest first quarter for the U.S. in five years, according to Mergermarket.

European M&A activity also took a nosedive during the quarter. The region saw 1,387 deals worth $122.9 billion in deals announced in the first three months of the year — the slowest quarter for European-targeted M&A since the third quarter of 2012, according to Mergermarket.

"European M&A has been challenged for quite a number of years now. I think those challenges continue and seeing the number of deals dropping and the values dropping in Europe this quarter, just shows this trend is almost bottomless. You thought at some point it would level out, but it continues to fall," said George Casey, Shearman & Sterling LLP's global managing partner and the firm's global M&A practice group leader.

"It's probably driven by a lot of political and economic uncertainty," Casey said.

That uncertainty includes Brexit. Deal-makers will pursue deals no matter how the separation happens, but the lack of understanding about what that separation will look like is making it difficult to value U.K. assets.

Mergermarket also noted that some European deal-makers may be hesitant to attempt large-scale mergers after seeing the European Commission in February **strike down** the proposed €15 billion ($16.87 billion) merger between Alstom SA and Siemens AG. The blocking of that deal came in spite of calls to promote **"European champions"** that can compete on a global scale.

Deal activity in the Asia Pacific region, excluding Japan, also dropped off during the first quarter of the year, according to Mergermarket. The region recorded 666 deals valued at a combined $119.9 billion, as Chinese deals fell by nearly half compared to the beginning of last year.

The difficulty in striking new deals both into and out of China comes amid a series of headwinds, including trade tensions between the U.S. and China, increased national security scrutiny of inbound U.S. deals, and tightening rules from the Chinese government.

A lackluster first-quarter performance around the globe is not enough to condemn the M&A outlook for an entire year. But private lenders are seeing their optimism for transactions dwindling and some are even starting to bet on defaults.

According to Proskauer Rose LLP's third-annual Trends in Private Credit report, which was released earlier this month, 28% of lenders surveyed anticipate more lending activity this year than last, compared to the 41% who predicted more robust activity for 2018 over 2017.

The report also indicates that 37% of private lenders believe there will be no change in lending activity, due in large part to what lenders describe as a stable or strong market and high levels of capital. Another 35% anticipate a drop in deals, citing a poor economic outlook, market conditions, Brexit and political uncertainty.

That falling confidence from lenders is likely an early indication that the M&A market is trending downward.

"I think what you've got is an early predictor that the deal market may not be as active in 2019 than it was in the past couple of years," said Steve Boyko, co-chair of Proskauer's private credit group.

It's worth noting too that "slower than 2018" doesn't mean the coming year will be dull.

Carl Marcellino, co-head of Ropes & Gray LLP's M&A group, called 2018 "a gangbusters year."

"Frankly, across all sectors, M&A at our firm was up. It was an unprecedented year. There is still good activity, but we've seen fewer deals getting done," Marcellino said.

There are still potential deals in the works, still fine-tuning the best time and terms with which to push forward in light of the headwinds.

"We're excited about the pipeline we have, but appreciate that there are factors in the marketplace that may make us, particularly toward the end of the year, more cautious," Marcellino said.

--Editing by Alanna Weissman.

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