For more information please contact

Stephen Stewart
Public Relations Manager, NA
Stephen.Stewart@bakermckenzie.com
+1 212 626 4830

Victoria Halliday
Global Communications Executive
Victoria.Halliday@bakermckenzie.com
+44 28 9555 5011

Cautious optimism to return to the transactions market in 2017

- **M&A to be flat in 2017 although pick up later in the year**
- **IPO activity to improve by 25% after weak 2016**
- **Still a cloud of uncertainty over investment environment in US and UK**
- **Significant uptick in transactions in 2018 as clarity returns**

Global, 16 January 2017 - The outlook for transactions while uncertain in the short term due to geopolitical factors is a more optimistic one in the years ahead reveals the second Global transactions Forecast issued by global law firm, Baker McKenzie.

After a year of political uncertainty, the forecast in association with Oxford Economics, predicts an uptick in transactional activity over the next four years, based on a gradual pickup in global economic growth in the years ahead, with GDP rising to 2.6% in 2017, and 2.8% in 2018. As threats to the stability of the global economy ease, and dealmakers regain confidence in the market, their apprehension should turn into appetite.

The forecast is based on the anticipation that EU and UK officials will make progress in forging a new relationship in 2017, and that the new US administration adopts a pragmatic stance on international trade and immigration, and sets out plans for fiscal stimulus. Also assumed is that China continues to manage its transition to a mature economy and the Eurozone continues its economic recovery, as well as financial markets continuing to hit new highs and investor confidence rising.

As Paul Rawlinson, Baker McKenzie's global chair explains, "We are clearly still in volatile times but deal-making is there to be done. Strong corporate balance sheets, cheap finance and moderate growth across markets and key sectors all point to an improving M&A run-rate later in 2017, after a cautious first quarter, and a significant uptick in 2018. The caveat is we need a benign Trump on trade and a soft-ish Brexit. Will we get that? Let's see."

M&A outlook

Baker McKenzie.

Global M&A and IPO activity slowed sharply in 2016 amid heightened economic and political uncertainty. Volatility in the US stock market, growing concerns about China's economic slowdown, and dropping oil and commodity prices caused dealmakers to become more cautious. Those concerns were compounded by the UK's vote to leave the EU and the US presidential election.

Michael DeFranco, global head of M&A at Baker McKenzie comments, "We expect that environment of uncertainty to continue at least for the first quarter of this year and so the forecast predicts deal making to drop slightly in 2017 to US$2.5 trillion from US$2.8 trillion in 2016 as global investors wait for clarity over the UK-EU relationship, and the new US administration's policies on trade and investment."

Equity markets around the world rebounded following the US election, but the Forecast is cautious about assuming too strong a recovery in deal activity given the uncertainties that prevail into 2017.

Once greater clarity emerges, the report predicts global M&A activity to pick up to reach a peak of US$3 trillion in 2018 (lower than the US$3.4 trillion peak in the previous forecast). Then deal making will gradually slow in 2019, dropping to US$2.8 trillion that year and US$2.3 trillion in 2020, as global finance becomes more expensive and valuations start to fall.

IPO outlook

The forecast predicts IPO activity to rise modestly in 2017 from a weak 2016 and bounce back in 2018 and 2019 as companies that had postponed their listings return to public markets.

The forecast has global IPO activity rising from US$133 billion in 2016 to US$167 billion in 2017, then peak at US$275 billion in both 2018 and 2019.

Improved market sentiment and a number of countries looking to list state-owned companies to raise money, particularly in the CEE, CIS, Middle East and Africa should lead to a more benign market environment in 2017 with a real pick up towards the second half of the year into 2018". said Koen Vanhaerents, global head of capital markets at Baker McKenzie.

Sectors

From a sector perspective, a key driver of global deals will be the tech sector, where M&A is forecast to reach US$415 billion by 2018 — the highest since 2000. Similarly we expect an uptick in IPO activity led by Snapchat's mooted IPO.

As Vanhaerents notes "If Snapchat's IPO is successful, it will be the largest US-listed technology offering since Alibaba Group in 2014."

Healthcare and in particular biotech and pharma deals will also fuel the upturn amid greater innovation, less potential regulatory intervention in the US and an increased role for private health providers in supplying public health services.

Deal making in the finance and consumer goods sectors will drop slightly in 2017 before rebounding in 2018. For finance, tech innovation and consolidation in Europe's banking industry is likely to boost M&A while the consumer goods sector continues to reap the benefits of cheaper energy and major growth in consumer spending. Because of sustained lower oil prices, deals in the energy sector will only modestly recover in the next few years as oil prices gradually rise although 2017 could see the listing of the Saudi oil giant Aramco in what would be the biggest IPO in history.

A positive outlook

DeFranco concludes, "Alongside this renewed market activity and investor confidence, global deal making has the potential to rebound in the coming years, given the massive cash reserves sitting on corporate balance sheets and near-record levels of private equity dry powder. Barring further shocks to confidence, investors will have the firepower they need to pursue acquisitions, and their apprehension will gradually turn into appetite."

ENDS

Notes to editors

Global Transactions Forecast

Oxford Economics have used statistical techniques to estimate the historic relationship between M&A and IPO activity and key drivers, such as GDP growth, equity prices, trade flows, money supply, legal structure and property rights and freedom to trade.

Based on their forecasts for GDP growth along with anticipated changes to the other criteria in each of the 37 markets has allowed OE to project the future value of M&A and IPO transactions. These predictions have also benefitted from Baker McKenzie partners around the world giving their views on the latest trends in their market and the likely evolution of transactions in their country.

In estimating global transactional activity, the forecast uses data on completed deals rather than announced deal values. From an analytical modeling perspective, it makes more sense to use completed deals for forecasting as it reflects actual outcomes. When calculating estimations, Oxford Economics grouped countries according to standard IMF classifications.

About Baker McKenzie

About Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centres in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC. We employ over 130 full-time people, including more than 120 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists.

Follow us on