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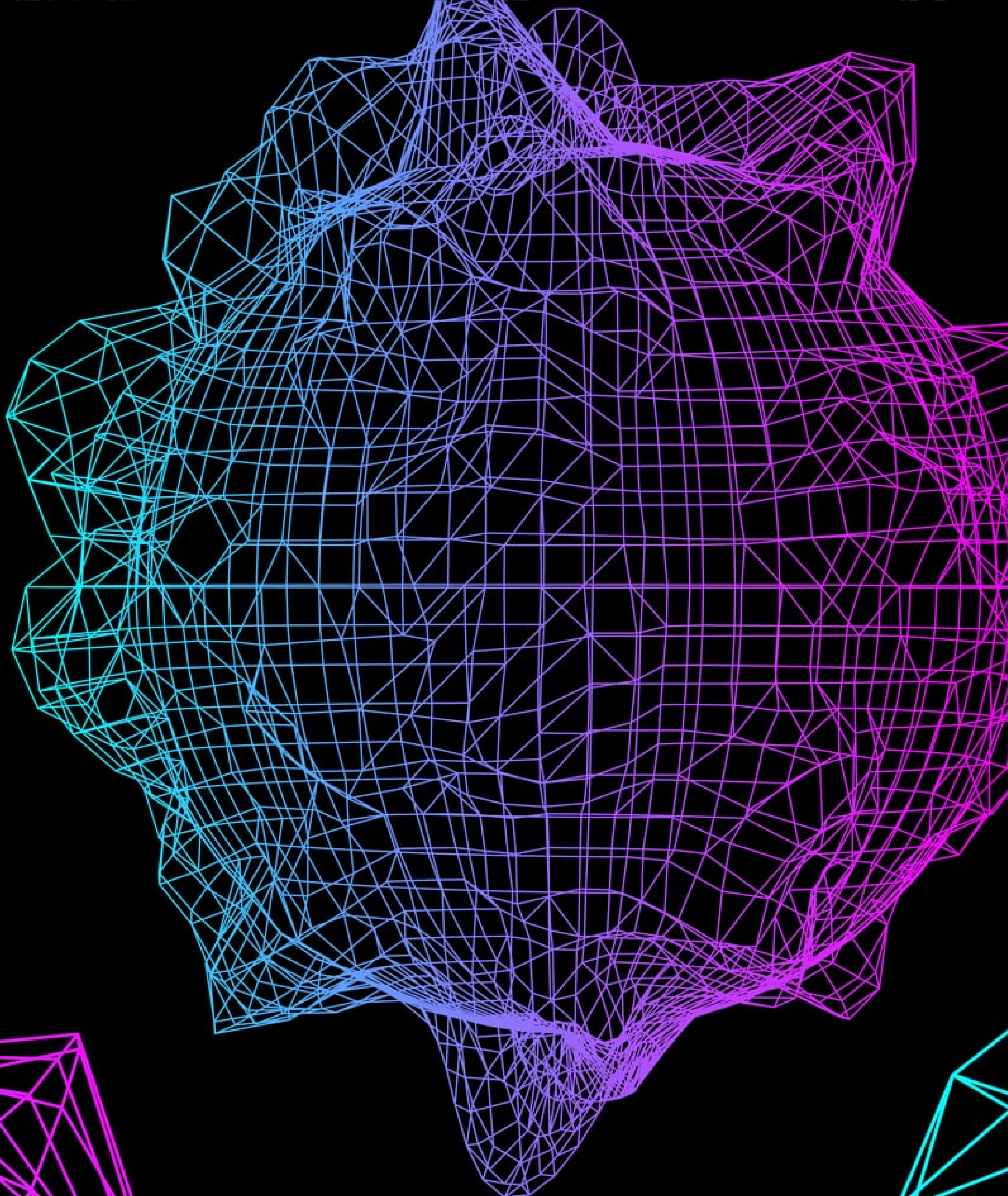
Global Transactions Forecast 2020

Powering through the downturn



TRANSACTIONAL POWERHOUSE

Leading and closing three deals a day

Foreword

Bright spots in a volatile landscape.

Bright Spots in a Volatile Landscape

We are delighted to launch the fifth edition of the Global Transactions Forecast, developed in conjunction with Oxford Economics. In this report, we offer an overview of the latest global deals landscape, including predictions for M&A and IPO activity during 2020-2022, and a closer look at the macroeconomic and financial drivers that underpin projections of transactional appetite globally and regionally.

The forecast suggests that overall 2020 will follow a similar pattern to 2019 with macro-economic and geopolitical uncertainty, putting a dampener on dealmaking and slowing IPO activity. That doesn't mean transactions activity has stopped altogether - far from it, as there have been bursts of activity this year and there will be again next year, arising from either strategic or tactical corporate decision making.

As was projected in last year's forecast, the M&A market and IPO activity has slowed down modestly this year. However, there have been a significant number of outliers to this trend including the US and South East Asia, and we expect more next year, even though overall global transactions activity in 2020 will decline further, given likely further turbulence in the global economy and renewed volatility in equity markets. The upcoming US presidential elections will also add an additional challenge to investment sentiment in that market and worldwide.

Nevertheless, a volatile global market will also create opportunities, particularly for private equity investors as they look to unleash some of their "dry powder" to tap into available deal opportunities. And for the best companies disruption will also drive transactions rather than stalling. These companies will still find deals to acquire capabilities, reshape portfolios, and accelerate growth.

Beyond 2020, medium-term drivers of transaction are more positive. The economy will be on an upswing and a recovering market will provide opportunities for growth and transactions.

In the meantime, regardless of market conditions and across all sectors, companies on the lookout for a technological competitive advantage will seek out acquisitions to enhance their digital capabilities. Meanwhile, activist funds are increasingly pushing for strategic change, pressuring boardrooms to continually review their portfolios and identify underperforming assets to drive product divestitures.

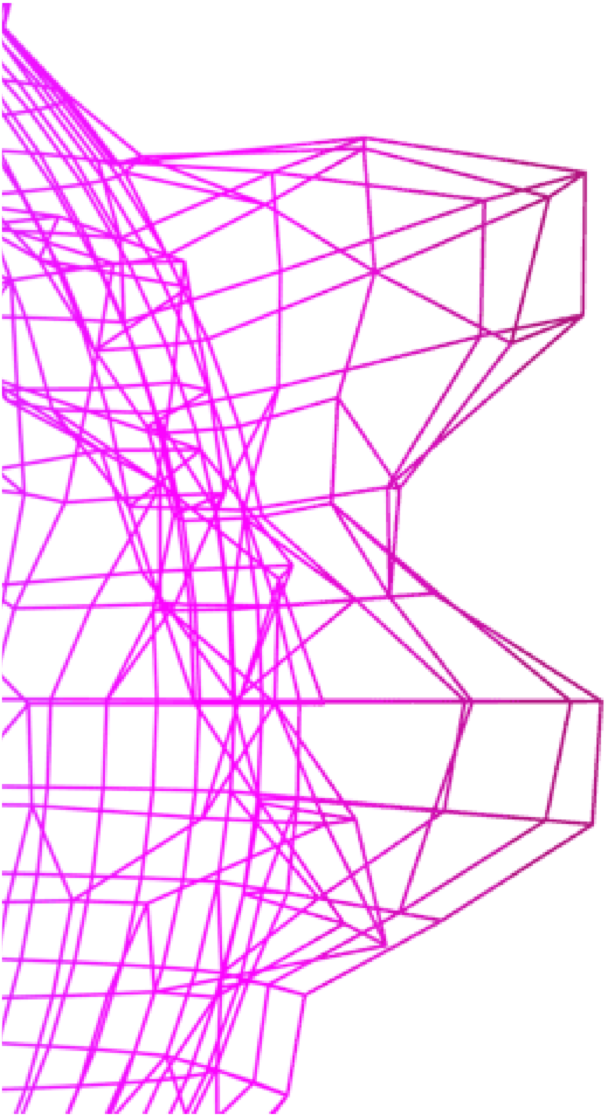
I hope you find the forecast of interest and please do contact any of us at Baker McKenzie if you have any comments or questions.

Ai Al Wong
Global Transactions Leader

Executive Summary

With the exception of North America, global dealmaking has weakened in 2019, a trend we expect to extend into 2020.

Executive Summary



With the exception of North America, global dealmaking has weakened in 2019, a trend we expect to extend into 2020.

Economic uncertainty and the risk of a global recession are likely to dampen transaction volumes next year. However, macro indicators should improve from 2021, as the global economy will stabilize, financial market volatility will subside, and a weakening dollar will improve liquidity. This should lay the foundation for a gradual rebound in M&A activity.

THE REGIONAL OUTLOOK

Worldwide

We see investors and corporations remaining cautious during 2020, faced with mounting economic and geopolitical challenges. We forecast that global M&A volumes will drop to USD 2.1 trillion during the year, a fall of USD 700 billion on our estimate for 2019.

While we anticipate a similar downward trend in IPO proceeds, the potential listing of Saudi Aramco is forecast to provide a one-off boost to capital raised next year. We therefore see IPO proceeds rising to USD 215 billion in 2020, from an estimated USD 152 billion in 2019. A broader rebound in activity should then unfold from 2021, as conditions become more transaction-friendly.

North America

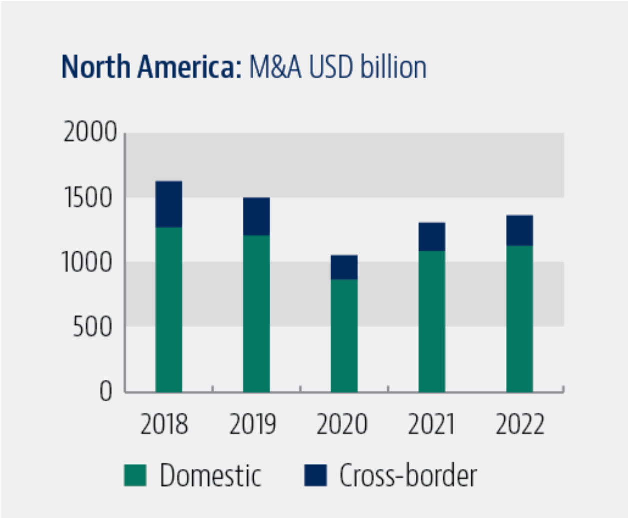
The North American market has been bucking the global trend. Yet, we anticipate a pause in transactions next year, due to a slowing US economy, the fact that 2020 is a presidential election year — which historically brings market volatility — continuing trade policy tensions, and a looming equity market correction.

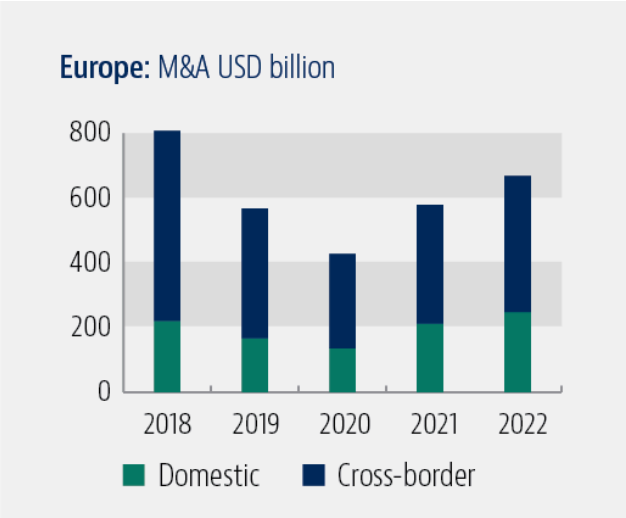
In the US in particular, M&A and IPO activities have remained buoyant during 2019. Easy financing conditions, the impact of tax cuts and the relative strength of the US economy have helped sustain deals to date.

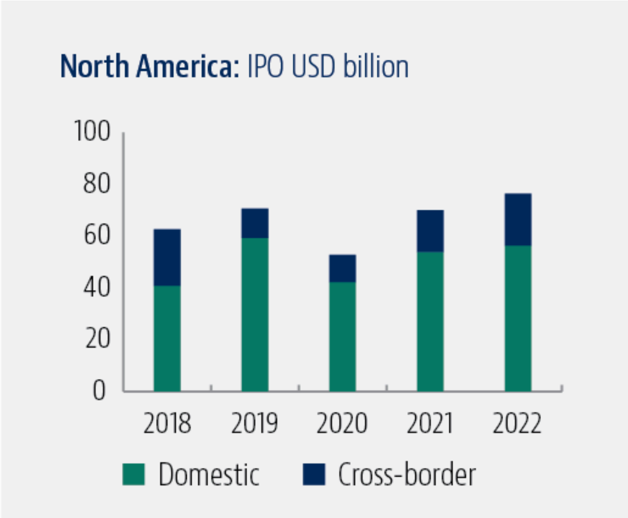
Europe

The year ahead promises a continued softening of transaction volumes in Europe. We see total M&A values easing to USD 427 billion in 2020, from a forecast of USD 557 billion in 2019. Likewise, IPO activity is likely to slow down, influenced by Brexit and US-EU trade developments.

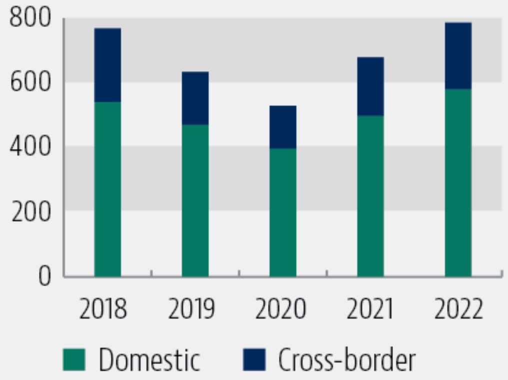
Europe's economy has been knocked off course this year, with the global trade slowdown hitting Germany's industrial sector particularly hard. Meanwhile, mergers have been subject to close scrutiny from regulators, who blocked several deals in 2019. Not surprisingly, the corporate appetite for acquisitions has waned as a result.



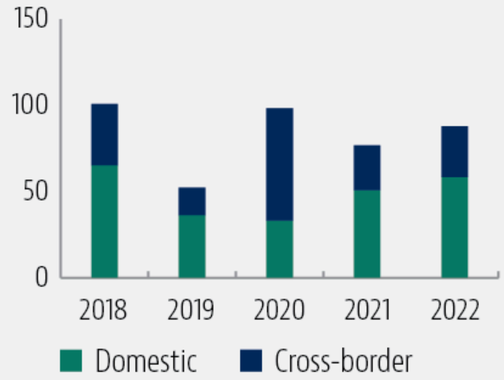




Asia Pacific: M&A USD billion



Asia Pacific: IPO USD billion

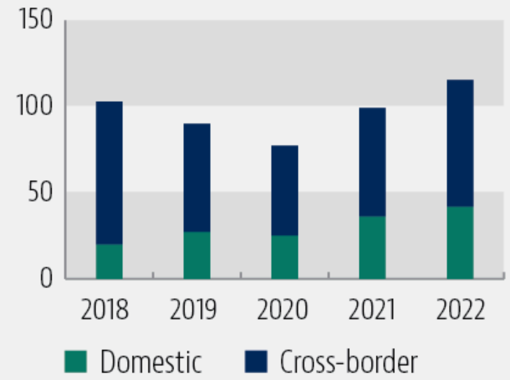


Asia Pacific

Deal levels in the Asia Pacific region are likely to be moderate next year before an upturn in 2021.

Transactions cooled during 2019, and cross-border activity was particularly slow. This partly reflects a reduction in Chinese outbound deals, due to government restrictions on outward investment. But, it is also the result of a broader loss of economic momentum across the Asia Pacific region, linked to the slowdown in global demand.

Latin America: M&A USD billion



Latin America

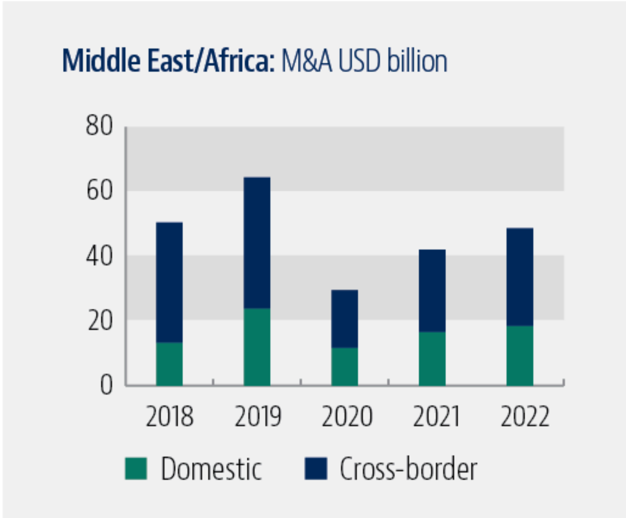
From 2021, improving conditions should lay the foundations for a recovery in Latin American M&A. Argentina is expected to emerge from recession, while political uncertainties will resolve, and commodity prices will be broadly supportive. For the time being, though, continuing financial turmoil in Argentina is intensifying the effects of an adverse economic environment in the region.

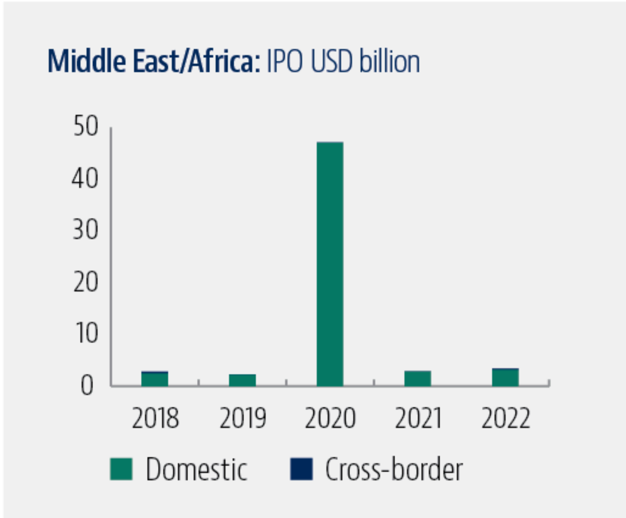
Throughout the years, market activity in Latin America was affected by political scandals in member countries, and volatility was enhanced by several regional elections in late 2018, such as the ones in Brazil and Mexico. Against this backdrop, the gradual M&A recovery of recent years has tapered off, and the IPO market has been exceptionally quiet this year.

Middle East and Africa

A slowing world economy and volatile oil prices are denting enthusiasm for transactions in the Middle East and Africa, but activity should rebound going forward.

Merger activity so far in 2019 has focused around the energy and financial sectors. Yet, businesses in the region have been less IPO-hungry, with only the Saudi market appearing relatively robust. Saudi Aramco's much anticipated flotation could provide a huge one-off boost to the region's IPO proceeds next year.





Global Deal Drivers: Recession Warning Signals

While the risk of recession is real, our baseline assumption is that the economy will experience a relatively modest cyclical slowdown.

Global Deal Drivers: Recession Warning Signals

Global GDP growth is likely to fall to around 2.5% this year, from 3.2% in 2018. That will make 2019 the slowest year since the tumultuous financial crisis of 2008-09.

To exacerbate matters, ongoing trade tensions between the US and China are deepening concerns for the economic outlook and raising fears of a worldwide recession.

While we cannot ignore the risk that a recession could be brewing, our baseline assumption is that the economy will experience a relatively modest cyclical slowdown.

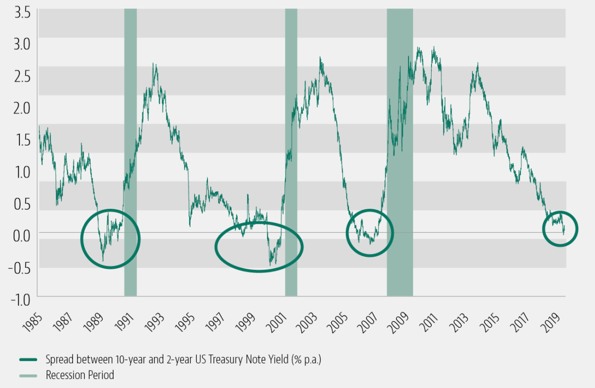
TRADE TENSIONS SPREADING GLOBALLY

The impact of the trade tensions between China and the US on the global economy has been modest so far. However, new US tariffs on Chinese consumer goods could have a much greater impact, as the economic outlook has deteriorated in the US and worldwide. Their consequences could be amplified by falling confidence levels and the subsequent effect on financial markets. Moreover, trade tensions may creep beyond the US-China frontline, as exemplified by Japan's trade restrictions on Korea.

BOND MARKETS SIGNAL A SLOWDOWN

Adding to the gloom, bond markets have been flashing recession warnings for the US economy. Two-year and 10-year US Treasury bond yields inverted this year for the first time since June 2007. Historically, such movements have proved a highly reliable indicator of a recession within the next year or so. However, their predictive power is debatable, as the Federal Reserve's recent bond purchases may have distorted price signals.

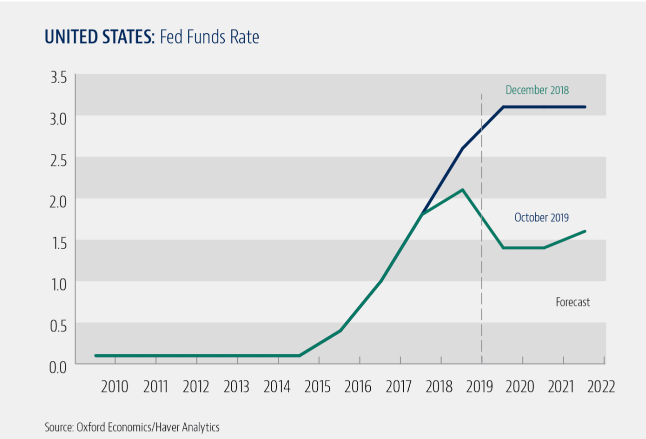
UNITED STATES: Yield curve and recessionary periods



Source: Oxford Economics/Haver Analytics

CENTRAL BANKS SHIFT TO EASING

The Federal Reserve's response to a faltering US economy has been an abrupt monetary policy U-turn. In a shift from tightening to easing, the Fed cut interest rates in July and September, and we anticipate two further cuts this year.



In a similar vein, the European Central Bank has cut its deposit rate and resumed quantitative easing (QE) purchases. We remain skeptical that QE or interest rate cuts can meaningfully boost demand, especially as China seems unenthusiastic about large-scale stimulus measures and is reducing its potential support to the rest of the world.

Elsewhere, some governments do seem willing to reverse the austerity measures introduced after the financial crisis. It remains to be seen whether any spending increases beyond what is in their current fiscal plans will be enough to give the global economy a major lift.

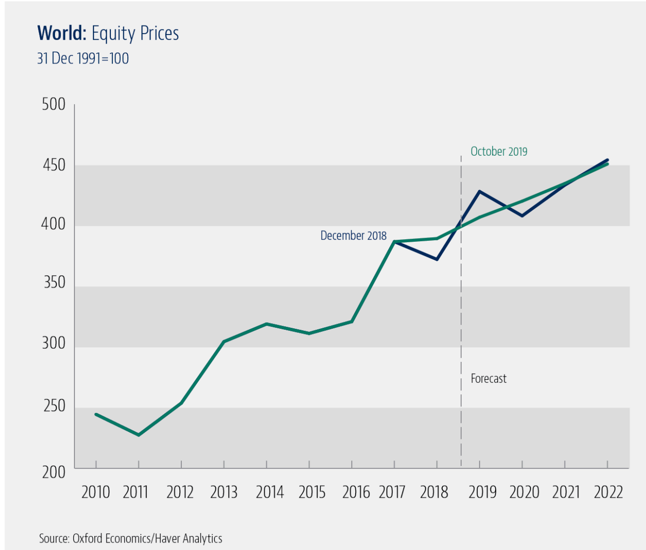
A MARKET CORRECTION LOOMS

We see a high risk of a correction in the global equity markets in the coming months, ushering in a period of protracted volatility.

The global equity market decline of late 2018 was offset by a rally in early 2019, but a slowing global economy does not bode well for corporate profits, equity or credit risk premiums.

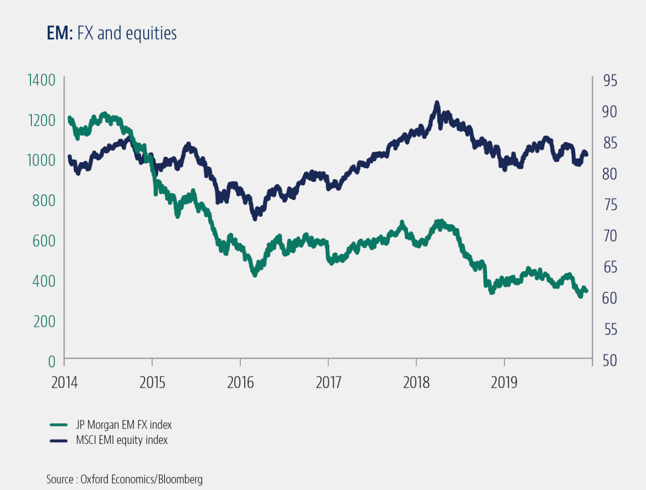
Earnings are already deteriorating in cyclical sectors, and leading indicators suggest downward profit revisions on the horizon. Policy easing from major central banks has buoyed market sentiment, but this may prove to be a case of hope over experience.

Looking beyond next year, we expect a more positive picture from 2021 onward. However, any rebound in the equity markets will likely be limited, offering only a modest catalyst to dealmaking activity.



EMERGING MARKETS COOLING

The outlook is conservative in the emerging economic regions as well. US-China trade tensions are escalating just as Southeast Asia's export growth finds itself in the doldrums. Over the past year, export momentum has been hit by weakening Chinese import demand, a slowdown in the global ICT cycle, and intensifying trade protectionism.



We expect Southeast Asian governments to ease monetary policy as a result. Yet, the pace of rate cuts will likely be modest, given the region's debt overhang and its vulnerability to renewed risk aversion.

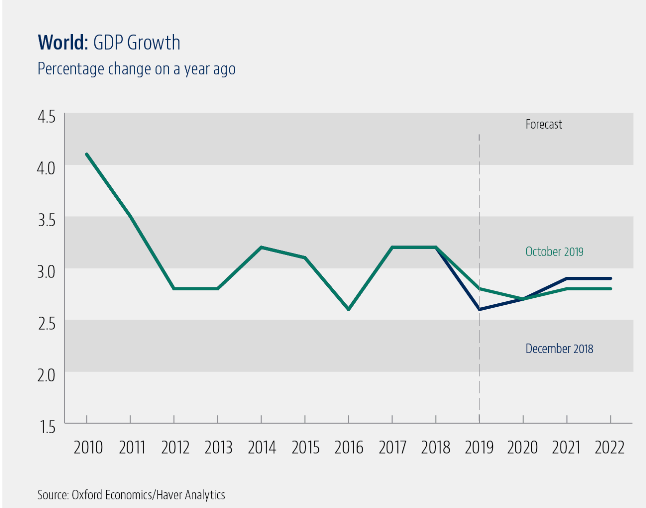
Meanwhile, the worst of the turbulence may be over in Argentina. Also, economies elsewhere in the Latin American region are stabilizing, as elevated political uncertainties begin to fade.

In addition, the extension of the OPEC+ deal to cap oil output until Q1 2020 has increased the threat of recession for major oil producers in the Middle East and Africa.

Central and Eastern European countries are still recording relatively strong economic activity, but they are feeling the drag from the global fall in trade, especially from the Eurozone.

MACRO DRIVERS SET TO WEAKEN

Activity is slowing abruptly after two years of relatively robust growth in 2017-18. Yet, despite the challenges besetting the global economy, it should be possible to avoid an outright recession, barring any adverse shocks. This scenario assumes that governments will loosen monetary and fiscal policy to stabilize financial conditions and GDP growth. Underlying uncertainties affecting manufacturing should then begin to fade (or at least not worsen), staving off sharp investment contractions.



While in the short term the uncertain environment will sustain the recent strength of the US dollar, beyond 2020 the currency is expected to weaken, which will incentivize global trade and financial balance sheets in emerging markets. The weakening of the dollar will be caused by the decline in interest rate differentials between the US and other economies and by a sharp slowdown in US growth next year. We also expect oil prices to remain subdued, staying below USD 65 per barrel throughout the forecast period.

Alternative Paths

We model five alternative scenarios:

TRADE TENSION ESCALATION

Trade partners retaliate in kind, as the US imposes more tariffs on China, a blanket tariff on imports from Mexico and the EU, and higher tariffs on the auto sector globally. The impact on the world's economy and financial markets is particularly damaging for cross-border deal flows.

PROTRACTED EUROZONE SLOWDOWN

Policymakers prove unable to prevent protracted Eurozone weakness, as the recent manufacturing slowdown spills over into the broader economy. A Eurozone recession hits other European economies markedly, and the impact on the US is great enough to drive more intense monetary easing from the Fed. Dealmaking in Europe is most negatively affected, equity prices fall and liquidity tightens.

US RECESSION HITS THE GLOBAL ECONOMY

The US economy slows sharply, succumbing to recession as lower corporate profits damage business, household and investor sentiment. US weakness affects Mexico and Canada, while negative reactions in financial markets hit vulnerable emerging markets in particular as sentiment deteriorates. Global transaction activity slows sharply in the near term, but aggressive rate cuts from the Fed support an eventual recovery of the US economy, which will also be reflected in stronger dealmaking by 2022.

NO-DEAL BREXIT

The UK leaves the EU in a disorderly fashion, triggering a negative response in financial markets, where UK and (to a lesser extent) Eurozone asset prices fall sharply. There is a major impact on the UK, Ireland and, to a lesser extent, other European economies, which is also reflected in lower transactional activity. Global impact is generally limited.

TRADE WAR FEARS FADE

A US-China deal allays trade policy uncertainty, against a backdrop of supportive monetary and fiscal policies from the world's major economies. Global investor sentiment improves, encouraging higher US and global equity valuations and lower risk premiums on emerging market debt. Improved investor sentiment supports higher levels of dealmaking in the near term.

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Global M&A Outlook: Roller-Coaster Ride

With mounting uncertainty facing the global economy, next year looks set for a deeper downturn in dealmaking activity than in 2019.

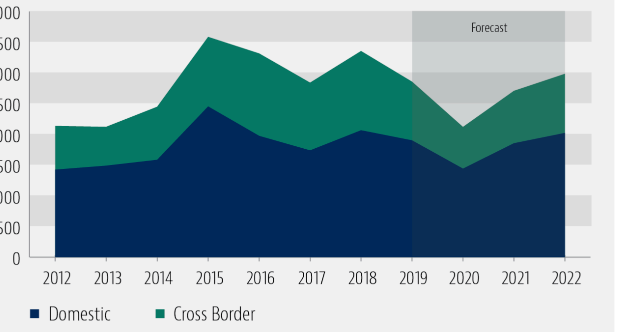
Worldwide: Medium-term Rebound in Prospect

With mounting uncertainty facing the global economy, next year looks set for a deeper downturn in dealmaking activity than 2019. That said, macro drivers should become more conducive to dealmaking from 2021 onward.

We forecast that global M&A volumes will decline from USD 2.9 trillion in 2019 to USD 2.1 trillion in 2020.

From there, the global economy should begin to stabilize, while the volatility affecting financial markets will subside and an expected weakening in the US dollar will ease liquidity conditions.

Consequently, the appetite for dealmaking should return from 2021 onward, providing the foundation for a gradual recovery in M&A volumes. Acquisitions will remain an important growth strategy for corporations in all major industries, driven in particular by the need to defend against technological disruption.



Source: Oxford Economics/Thomson Reuters

North America: Defying Gravity?

The US deal market has held firm despite the odds this year, but we predict a short-term deceleration in 2020, due to the economy slowing down and a possible equity market correction. Activity should then pick up from 2021-22.

In 2019, a number of large deals have inflated total M&A values in the first half of the year, which represents a continuation of the mega-deal trend that started in Q4 2018. This year, we have seen Walt Disney buy 21st Century Fox for USD 84 billion and DowDuPont's USD 40 billion spin-off of Dow Inc. Favorable financing conditions, tax cuts and the relative strength of the domestic economy relative to Europe and Asia kept activity levels robust.

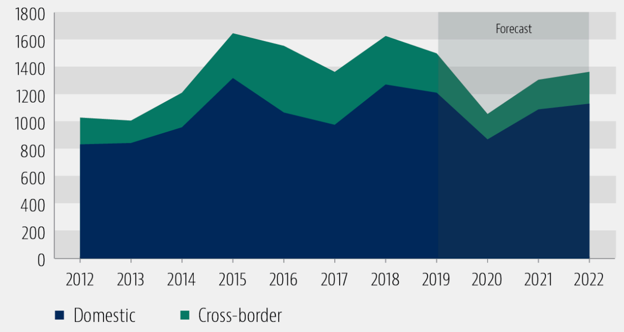
As a result, we expect total M&A values to reach USD 1.5 trillion in North America by the end of 2019. This total could have been even higher, but for an increasingly interventionist approach from US regulatory authorities, especially on foreign acquisitions of US firms.

There exist some emerging downward pressures, however. Investors have growing concerns about high company valuations and rising corporate leverage: a number of large deal announcements have caused negative market reactions recently.

What's more, the geopolitical environment is increasingly challenging. Trade tensions with China are intensifying, and — more broadly — as the US Administration has threatened tariffs on imports from the EU and the global auto sector. Political uncertainty will be further elevated next year due to the upcoming presidential elections.

Ultimately, we would not expect companies to move away from dealmaking for long. M&A remains an effective strategy for gaining a competitive advantage, especially in the highly disruptive digital age. We predict a modest recovery in deal flows during 2021-22, as the global economy stabilizes, and corporate confidence gradually returns.

North America: Total M&A activity, $bn



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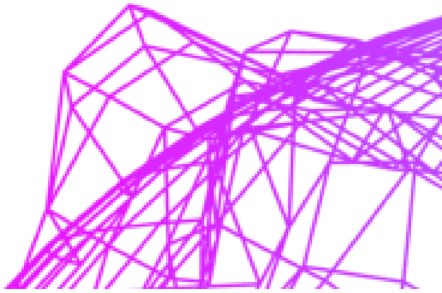


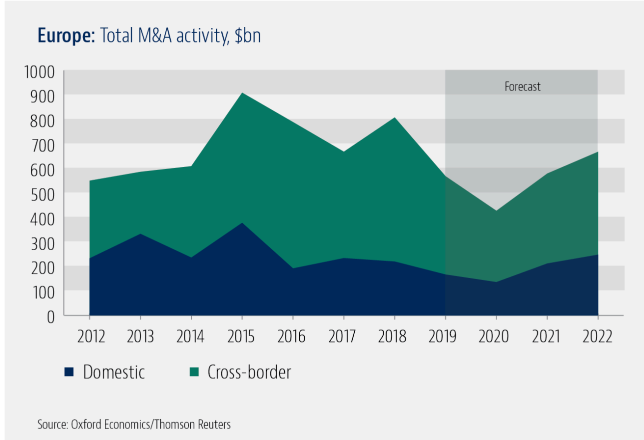
Europe: Uncertainty Casts a Long Shadow

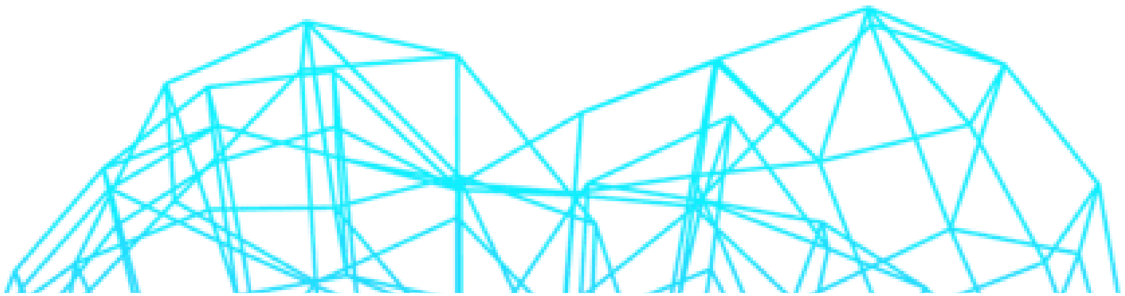
The European economy has seen problems on a number of fronts. Though European Central Bank (ECB) stimulus measures should provide some impetus, we doubt it will be enough to bolster confidence in the face of ongoing geopolitical tensions.

We predict a steep 30% decline in total M&A value compared to last year, with deals totaling USD 567 billion in 2019, followed by a further reduction to USD 427 billion in 2020. While we expect a cyclical upturn in 2021, the specter of a no-deal Brexit and the threat to US-EU trade relations still pose significant downside risks.

Over 2019, slowing global trade has affected Germany's industrial sector in particular; political instability has undermined confidence in Italy; and the UK has struggled on with its never-ending Brexit saga. Not surprisingly, dealmaking activity has fallen across the continent as a result. Moreover, regulators are looking harder at proposed mergers, and blocking them on occasion.

All the same, some notable deals have closed in recent months. Irish pharmaceutical company Shire sold for USD 60 billion to Japan's Takeda Pharmaceutical; there was Vodafone's long-anticipated USD 22 billion acquisition of Unitymedia in Germany, and the USD 27 billion divestment of Alcon by Swiss firm Novartis.





Asia Pacific: Pockets of Resilience Despite Chinese Restraint

Deal activity has also cooled in the Asia Pacific region this year, particularly in terms of cross-border activity. It's a trend we expect to continue into 2020.

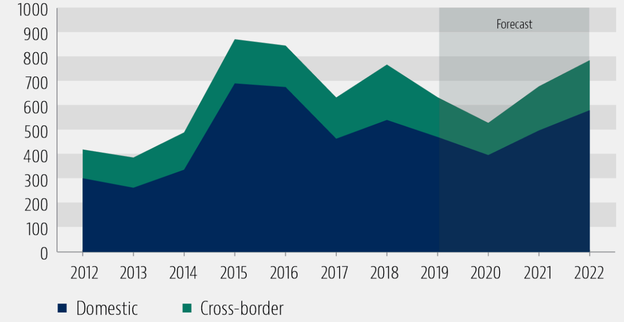
We expect that M&A activity in the region will decline by 18% to USD 634 billion in 2019; then to USD 529 billion in 2020. However, a modest resurgence should surface the following year, due to a stabilization of liquidity conditions and improvement in equity markets.

Downward pressure on transactions in 2019 has partly been the result of a reduction in outbound Chinese deals. This pressure was driven by government restrictions placed on outward investment in response to the trade tensions with the US.

Yet, the region has also seen some notable exceptions. Healthy M&A activity in Japan has been fueled by conglomerates selling non-core assets and by companies seeking growth opportunities through outbound acquisitions. Meanwhile, the dynamic economies of Indonesia, Thailand and Vietnam remain attractive targets for overseas investors.

Looking ahead, domestic industry consolidation in China and changing consumption and production patterns across the region will be key structural drivers of M&A activity in the years to come.

Asia Pacific: Total M&A activity, $bn



Source: Oxford Economics/Thomson Reuters

Latin America: Mixed Fortunes

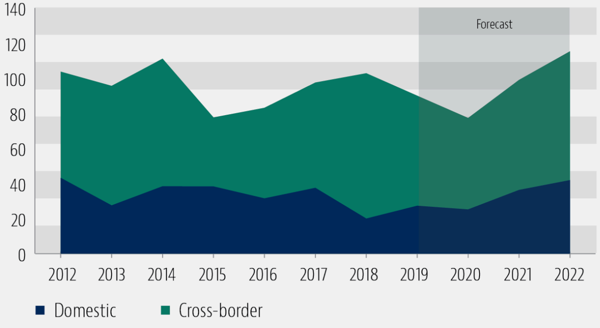
Ongoing financial turmoil in Argentina is likely to weigh on corporate confidence over the coming year, meaning a further softening of activity. This will be simply a continuation of the very slow M&A activity that Latin America has experienced over 2018 and 2019.

Following an estimated USD 90 billion of M&A transactions in 2019, we predict deal flows to slow to USD 77 billion in 2020.

Yet, beyond next year, three key drivers should lay the foundations for an uptick in M&A levels: Argentina's expected recovery from recession in 2021, a brightening external environment, and more supportive commodity prices.

A regional outlier this year has been Brazil, thanks to optimism about an economic recovery and investor-friendly policy reforms. One notable deal here — the USD 10 billion acquisition of Fibria Celulose by Suzano Papel e Celulose — created the world's largest wood pulp producer.

Latin America: Total M&A activity, $bn



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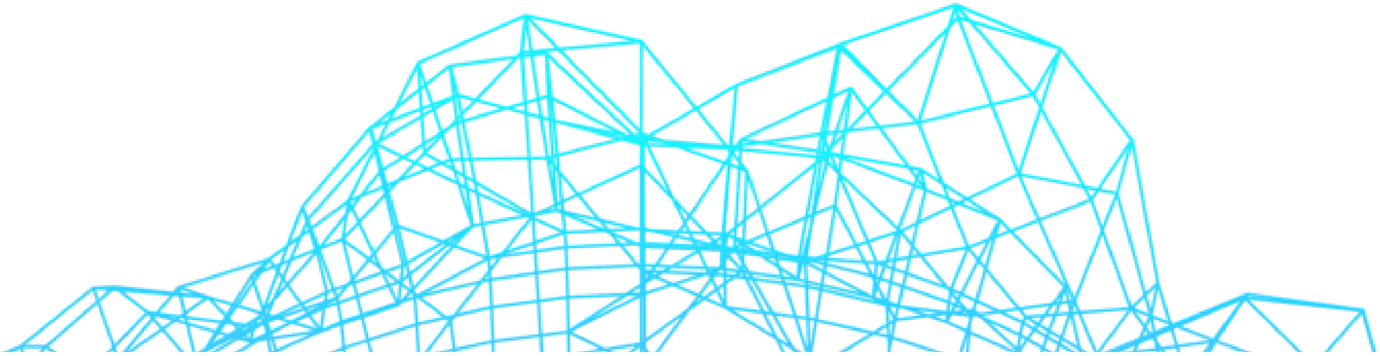


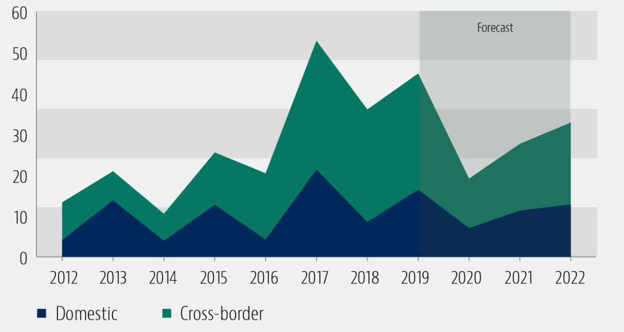
Middle East: Oil Prices Encourage Consolidation

Dealmaking remains robust in the Middle East region, due in particular to transactions in the energy and financial sectors during the first half of 2019. Overall, we anticipate close to USD 45 billion of M&A transactions in the region this year.

Looking forward, however, we see the region falling in line with global trends. The slowing world economy and volatile oil prices will dent enthusiasm for M&A next year. It should be noted, though, that Saudi Aramco taking a 70% stake in petrochemical firm Saudi Basic Industries could provide a USD 70 billion spike.

Strong domestic activity in 2019 was underpinned by a number of large transactions. These include Saudi British Bank's USD 5 billion purchase of Alawwal bank; and Abu Dhabi National Oil Company's USD 4 billion sale of a 40% stake in its pipeline unit to US private equity investors KKR and BlackRock. The Alawwal deal created Saudi Arabia's third largest lender.

Middle East: Total M&A activity, $bn



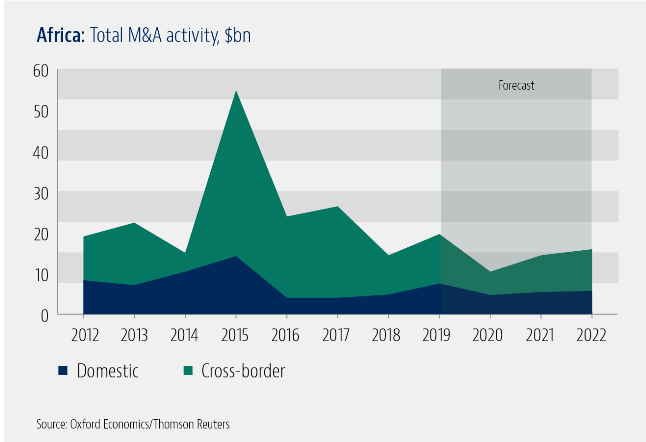
Source: Oxford Economics/Thomson Reuters

Africa: Investors Focus on Growth Potential

African deal activity has been lively in recent months, but a pause is likely to occur next year due to increased volatility in global financial markets. Growth should resume in 2021-22, thanks to consolidation in the energy and mining sectors. Consumer staples should also prove an attractive target for investors seeking access to the region's growing middle class.

Deal values are forecast to halve from USD 20 billion in 2019 to USD 10 billion in 2020. They have been given a boost by the South African market this year, particularly the USD 3 billion spin-off of video entertainment business MultiChoice Group by media group Naspers.

There has also been a growing volume of inbound acquisitions of South African companies. This suggests that investor sentiment may have turned a corner, following a prolonged period of political and economic uncertainty in the country.



Private Equity Standing Ready to Deploy Capital

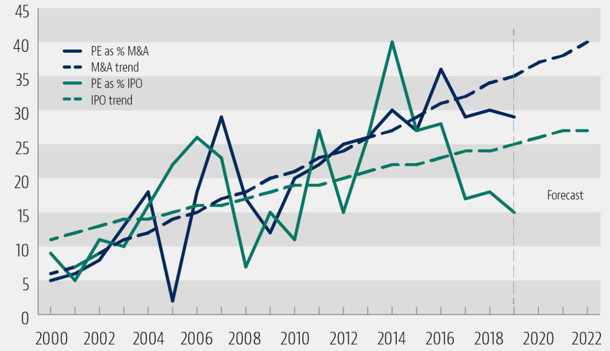
While private equity (PE) involvement in M&A transactions has been on a secular rising trend over the past two decades, the industry appears to have been exercising caution more recently.

The proportion (by value) of PE involvement on either the buy- or sell-side of M&A has flattened off at around 30% in 2017-19, having moderated from a peak of 36% in 2016. This may be an indication that PE firms are increasingly uncomfortable with deal multiples close to historic highs, amid stiff competition for targets. On the IPO side, rich valuations present an incentive to sell assets, but PE exits slowed this year following the equity market declines experienced at the end of 2018.

PE firms are facing heavy pressure to deploy capital stockpiles, with available "dry powder" having risen to an estimated USD 2 trillion at the end of last year, according to Prequin. They will therefore continue to search for value and plan for how they can profit from the opportunities created by future market volatility. Recognizing that downturns create real opportunities, it is likely that the coming years will see a resurgence in the PE shares of both M&A and IPO activity.

Private Equity: Role in global dealmaking

% of IPO which is PE exit, or M&A which has PE involvement on buy or sell side



Source : Oxford Economics/Haver Analytics

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Global IPO Outlook: US, Saudi Buck the Trend

Global IPO activity slowed sharply this year.

Global IPO Outlook: US, Saudi Buck the Trend

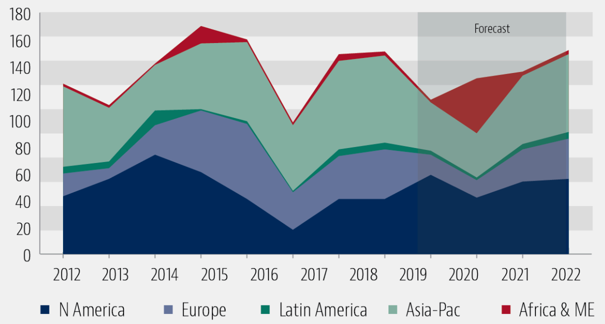
WORLDWIDE: PUBLIC OFFERINGS TUMBLE

Global IPO activity slowed sharply this year. Corporate sentiment deteriorated in response to ongoing economic and geopolitical uncertainties. The equity market volatility of late 2018 also created uncertainty that affected businesses, but the market rebounded pretty quickly, even though at a lower level of activity as a global trend.

We therefore expect a 23% decline in the total value of domestic IPOs in 2019, to USD 116 billion. A similar pattern looks set for 2020, amid renewed declines in global equity markets. Yet, the potential listing of Saudi Aramco would provide such a large one-off boost to global IPO proceeds. We are forecasting global IPO proceeds to rise to USD 132 billion.

From 2021, potential issuers who have held off listing may be lured back to the market by more favorable conditions, driving a broad rebound in IPO activity. By 2021, many of the uncertainties of 2019-2020 will have resolved, such as Brexit, the US presidential election, or the economic slowdown in the Eurozone.

World: Domestic IPO by region, $bn



Source: Oxford Economics/Thomson Reuters

NORTH AMERICA: IPO APPETITE UNDIMINISHED

Domestic IPO activity has accelerated in North America — and in the US in particular — but we do not think this momentum will carry into next year.

This year's total is closing in on USD 60 billion, an impressive 45% increase on 2018. Some USD 8 billion of this was raised by Uber's listing in New York, along with a number of other high-profile mega deals in the US, such as Avantor and Pinterest. That said, some large deals subsequently underperformed in initial trading, especially pre-revenue companies with no clear path to profitability. This suggests that these companies were overvalued before going public.

Yet, despite several major IPOs in the pipeline, renewed financial market volatility will likely force postponements until conditions stabilize in 2021-22. We have already begun to see an increase, with recent postponements from WeWork, Endeavour and ADC Therapeutics — as nearly half of the IPOs in 2019 are trading below their offer price. We anticipate IPOs totaling USD 42 billion in 2020.

EUROPE: CORPORATE CAUTION CUTS LISTINGS

European companies have proved reluctant to go public this year, and IPO activity should remain subdued in 2020. The window should reopen from 2021, when market conditions are expected to improve, as the region's economy regains traction and Brexit-related uncertainties fade.

In 2019, confidence has been undermined by geopolitical headwinds, the continuing Brexit drama, and post-election instability in several European countries. As a consequence, we predict a 60% drop in the total amount of money raised from domestic IPOs across the continent by the end of the year, to just USD 15 billion, with a further decline to USD 13 billion forecast in 2020.

That said, there have been a few bright moments in 2019, such as the payment service company Nexi's USD 2 billion listing on Italy's Borsa Italiana and Network International Holding's USD 1.6 billion offering on the London Stock Exchange.

ASIA PACIFIC: DECLINING ACTIVITY AMID ECONOMIC HEADWINDS

Asia's IPO market had a quiet year, as global uncertainties prompted companies to reschedule listings. Corporations are likely to stay similarly cautious over the next twelve months, with momentum picking up again in 2021-22.

Overall, we expect domestic listings across Asia Pacific to raise USD 36 billion in 2019, a sobering 43% decline on last year's total. IPO proceeds are forecast to decrease further to USD 33 billion in 2020.

One big exception this year has been the Singapore market, where the listings of four real estate investment trusts helped push total proceeds to an estimated USD 2.4 billion.

LATIN AMERICA: POLITICAL UNCERTAINTY COOLS ACTIVITY

Latin America had a slow start to 2019, due to prolonged political and economic instability in a number of the region's member countries. We expect a similar picture for IPOs in the coming year, with proceeds declining to USD 2 billion from an estimated USD 3 billion in 2019. Then, as corporate confidence in the region will pick up in 2021, IPOs will see a rebound.

The Mexican market stalled completely during the first half of 2019, as companies sought clarity on the policies of the country's new populist leadership. The Brazilian market was also quiet, barring the USD 977 million listing of Brazil's largest private power distributor Neoenergia.

Chile has been the exception. Santiago's IPO market looks set to post a significant increase in proceeds this year, due in part to the USD 1 billion listing of retailer Cencosud Shopping.

MIDDLE EAST: SAUDI ARABIA STANDS OUT

Listings on the Saudi exchange dominate the Middle Eastern picture, as the kingdom will likely account for the lion's share of IPO capital raised both this year and next. Elsewhere, though, a number of listings across the Gulf Cooperation Council area risk being delayed until market conditions improve.

Notably, our forecast now includes the potential flotation of a percentage of the national oil company Saudi Aramco. That could raise up to USD 100 billion, making it the largest IPO ever. Media reports suggest a two-stage IPO is being prepared, with a domestic debut followed by an international offering.

Clearly, this would provide an enormous, one-off boost to Middle Eastern IPO proceeds if and when it happens. We therefore expect IPO proceeds in the region to rise from USD 2 billion in 2019 to over USD 40 billion in 2020.

AFRICA:
IPO PROCEEDS COLLAPSE

Political and economic uncertainty in Africa has led to a sharp decline in IPO activity this year, and remarkably, a complete absence of deals in South Africa. As such, proceeds across the continent are predicted to total just USD 100 million in 2019.

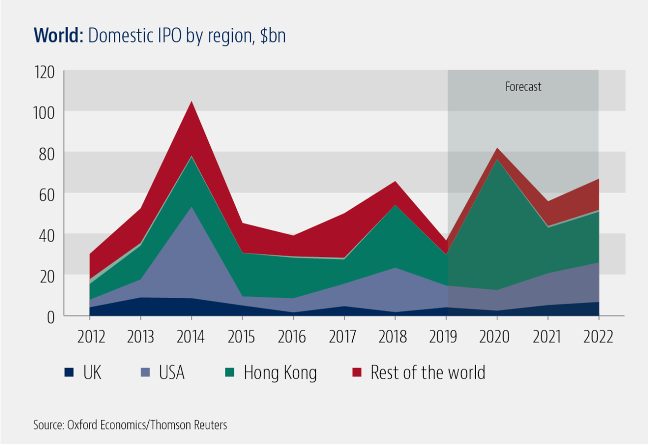
Looking ahead, African companies appear to be sitting on the sidelines, delaying plans for capital issues until the economic and political landscape stabilizes. So, we can expect only a modest upturn next year to around USD 400 million, with a more significant acceleration from 2021, thanks to an improving global backdrop.

CROSS-BORDER IPOs:
SLOWDOWN FOLLOWS SURGE

Following a glut of international IPOs last year, two key markets for cross-border activity — Hong Kong and the US — have slowed in 2019, as corporate sentiment was dampened by the increasingly uncertain economic and political backdrop. A decline in capital raised by Chinese issuers has accounted for much of the fall in value this year.

We expect international activity to soften further next year, amid volatility in the financial markets. However, the potential cross-border listing of a percentage of Saudi Aramco is assumed to provide a one-off boost to proceeds in 2020. We then predict a solid rebound in underlying cross-border activity from 2021 as markets become more receptive.

The recent launch of China's Science and Technology Innovation Board (dubbed "the STAR market") could attract more technology listings to the mainland in the future, though this may be a gradual effect. More than 120 companies had applied to list on the STAR market by June 2019.



Conclusion: Grounds for Optimism

Our analysis suggests a further softening of global dealmaking over the coming year.

Conclusion: Grounds for Optimism

Our analysis suggests a further softening of global dealmaking over the coming year, in an environment of heightened economic and geopolitical uncertainty. Yet, the medium-term outlook is brighter, given the underlying structural trends shaping the global economy.

This year's M&A slowdown was expected, as favorable conditions have been building for some time. Even in the US, where transactions have remained robust, there are signs that companies are less comfortable with high valuations and rising corporate leverage than a few years ago. This could indicate a downturn in the deals cycle on the horizon.

As a result, we see investors becoming more selective in the coming months. However, companies will always get interested in strategic acquisitions when opportunities come along.

IPO levels have been similarly disappointing this year, and a broad, near-term rebound seems unlikely given the likely increase in overall volatility.

That said, IPO pipelines are healthy, and some firms may look to accelerate their flotation plans, fearing a renewed slump in equity prices.

Though investors may proceed cautiously in the immediate term, the medium-term drivers remain positive overall. Where organic growth opportunities prove scarce, companies will look to identify acquisitions that make strategic sense.

In particular, the prospects for technology deals look strong, with firms in all sectors needing to partner with technology players in the disruptive digital age. So despite the challenges at hand in the near term, investors can remain optimistic about the future of the deals landscape.

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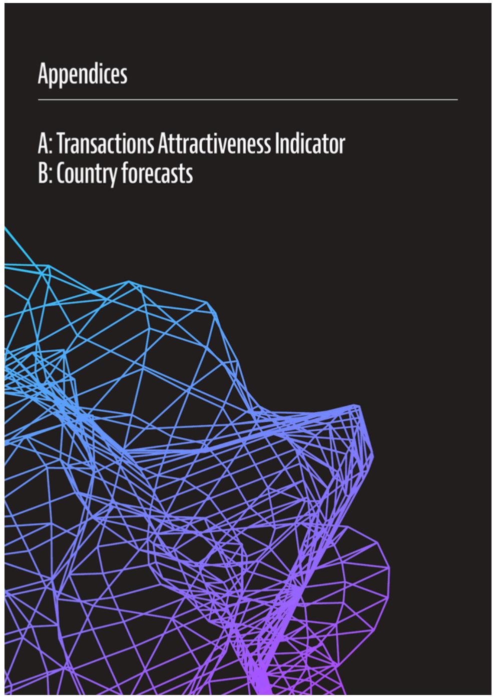

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