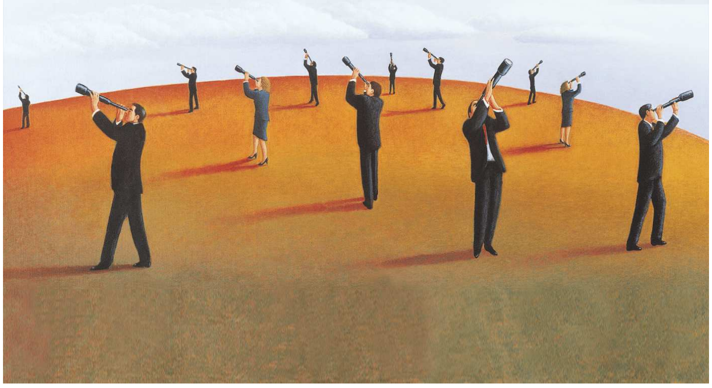
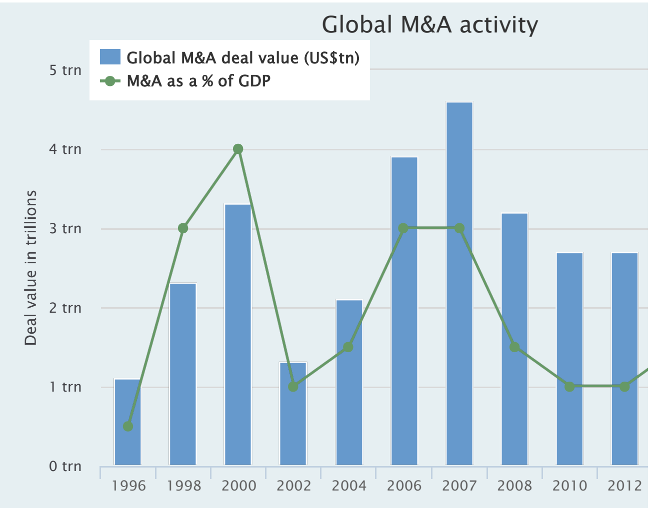
J.P. Morgan Insights 2016 M&A Global Outlook



2016 M&A Global Outlook

Higher deal count drives continued strength

Five years of consistent growth and steady recovery in the U.S. is supplying buyers with the confidence to seek out acquisitions as they face sluggish organic revenue growth and limited operating margin improvements. Furthermore, in the fourth quarter of 2015, businesses were sitting on more than $6 trillion in accumulated cash reserves globally.[1] Healthcare and Telecommunications, Media & Technology (TMT) may again be the leading sectors for transactions, partially benefiting from a “domino effect” where corporates that were inactive in 2015 seek to replicate peer deal success and related advantages. Amongst less active industries, commodity-related sectors affected by overcapacity—such as Oil & Gas and Mining—could benefit from consolidation, although activity is likely to be dependent on whether a clearer, more sustainable consensus emerges on commodity prices.



Source: J.P. Morgan, Dealogic as of January 8, 2016; M&A as a % of GDP is rounded to the nearest whole number

Where 2015 was marked by many mega-sized transactions that led to a record year, 2016 may see a rise in volumes supported by a greater number of deals. With the possibility of renewed and diversified activity from private equity players, and new regions facing agitation from activist investors, 2016 may prove to be another exciting year in M&A.

2016 key themes

- Supportive deal environment continues: Dealmakers will benefit from factors supportive to M&A, and businesses may take up numerous deals in a “domino effect” after observing successful peer transactions in 2015. It may also be a year with new areas of activity, such as those in commodity-related sectors
- Balanced mix will characterize activity: Confident CEOs are armed with $6 trillion to pursue growth as well as defensive combinations to enhance scale and fortify balance sheets weakened by commodity prices. Additionally, private equity funds may increase their activity to deploy substantial available equity
- Cross-border transactions will provide a significant source of value creation: As corporations seek external growth, businesses are increasingly turning to cross-border transactions
- Activist investors will continue to seek expansion: Activists are eyeing new geographies outside of North America, increasingly Europe, the Middle East and Africa (EMEA) and Japan

FOUR EXPECTED TRENDS FOR THE YEAR AHEAD

1. Supportive deal environment continues in 2016

A greater number of deals and new sectors may underpin increased M&A activity in 2016. Dealmakers will benefit from supportive factors that helped drive 2015 M&A to its highest levels, though more numerous and smaller transactions and new sectors may see the biggest uptick in 2016.

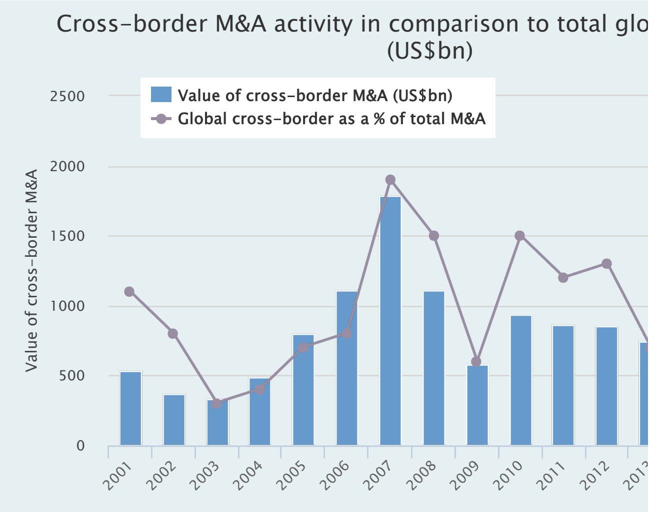
- Acquirers should continue to aim for positive market reactions, but bring greater discipline to deal terms and logic as investors exercise more discretion when reacting to deal announcements
- Commodity-related sectors and Financial Institutions may see a rebound in activity in 2016
- Asian outbound M&A will remain a significant factor in global transactions going forward as the region's businesses look West for new sources of growth and value-add products and services for a rising middle-class (https://www.jpmorgan.com/pages/insights/asiamastudy)

2. A ‘balanced mix’ of deal activity will characterize 2016

The need to support slowly recovering earnings, match peers that have already benefited from transaction activity, deploy significant cash reserves and overall boardroom confidence will help drive acquisitions. Deals will also be driven by defensive combinations as corporate leaders seek opportunities to bolster their growth profile and/or enhance expansion. Five years of stable growth has proven to chief executives that the post-recession recovery isn’t fleeting, and armed with a massive cash reserve, corporate leaders have the means and confidence to pursue acquisitions or to optimize their portfolio through corporate clarity actions.

- $6 trillion in cash reserves held at the end of 2015 provides corporate leaders the firepower to make acquisitions to improve earnings and consider hostile actions to deploy cash before they come under pressure to return it to shareholders
- Chief executives may also use 2016 to spin off and divest assets to achieve greater earnings growth and corporate clarity
- Private equity funds may play a more significant role in the year as private equity 'dry powder'—capital available for investment purposes—nears records

3. Cross-border transactions will continue to provide a significant source of value creation



Source: J.P. Morgan, Dealogic as of January 21, 2016; Deals greater than $10mm taken into consideration

- Desire for higher growth markets, greater value-add products and services, and attractive valuation opportunities are driving increases in outbound activity across regions

As corporations seek external growth in the global economy, businesses are increasingly turning to cross-border transactions as an avenue for value creation.

- Europe may attract more inbound activity as there is better visibility around the return of growth to the region which may not be fully reflected in market prices
- Strong levels of Asian outbound activity are likely to continue

4. Activist investors will continue to seek expansion

Activism will continue to have a significant impact during 2016. With confidence built on U.S. successes, activists may begin initiating campaigns in new geographies, notably EMEA and gradually Japan.

In addition to activist funds, traditional institutional investors are now engaging more forcefully with the senior management and boards of the companies in which they invest and are contributing to the same activism effect. With the U.S. and Canadian markets already quite active, many funds are turning to new regions for fresh investment opportunities, particularly EMEA and steadily Japan. While activism may be slower to gain a foothold in Western Europe, activist investors will continue to seek opportunities for geographic expansion as the region becomes more stable and predictable following several years of uncertainty. Activists are also beginning to make headlines across Asia with campaigns directed at companies controlled by family offices and corporate monoliths, after critically seeing a string of activity in Japan in recent years.

- Assets under management at activist hedge funds reached $122.9 billion in the fourth quarter of 2015
- Activism is internationalizing just as shareholder bases are, and Japanese corporates may prove the next geographic frontier
- Structural and regulatory distinctions may cast activism in different guises, but investor activism is extending its international reach

[1] Source: Factset, representing the aggregate of cash balances (cash and short-term investments) for public traded companies with a market capitalization greater than $1 billion globally

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