2020 Global M&A Outlook

Navigating a period of uncertainty

J.P.Morgan

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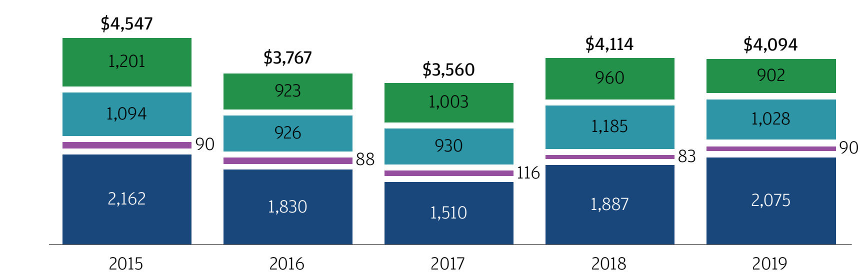
Coming off a strong 2018, the global M&A market slowed in 2019. While global announced transaction volumes were in line with 2018 (driven by increased announced transaction volumes in North America), deal count for deals greater than $250 million was down 9% globally year over year. Despite declines in announced M&A activity, strategic dialogue remained strong as companies continued to use M&A to strengthen their businesses.

Global M&A announced $ volume by target region ($bn)

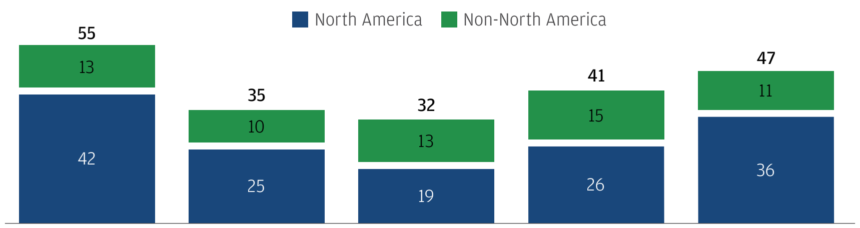


	2015	2016	2017	2018	2019
$250mm+ deal count	2,322	2,182	2,165	2,335	2,135

Source: Dealogic, as of 12/31/2019

From a regional perspective, in North America M&A announced targeted transaction volumes were up 10%, while volumes were down across EMEA and Asia Pacific (down 13% and down 6% versus 2018, respectively). The increase in North American volume was driven by an increase in the number of announced megadeals ($10 billion in size or greater). In 2019, 47 megadeals were announced globally—36 of them in North America—the second highest megadeal count in North America on record and up 38% versus 2018. However, 23 of the 36 megadeals in North America were announced in the first half as the North America market began to be affected by concerns of slowing global growth. Despite increased concerns of an economic slowdown, activity in the rest of the world outside of North America experienced an increase in targeted volumes in the second half of the year and the appetite for large transformative deals overall was still strong among corporates in 2019.

Global M&A announced megadeal* count (# of deals)

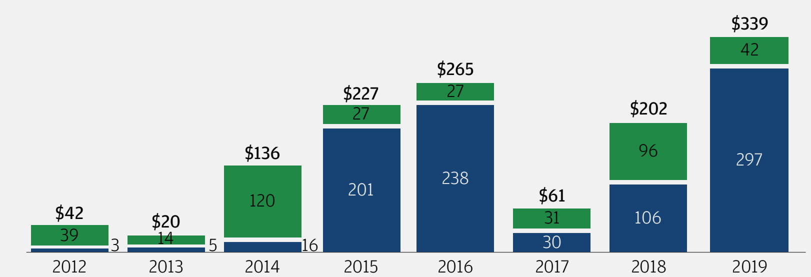


Source: Dealogic, as of 12/31/2019
*Deals with announced $ volume >$10bn
Note: North America includes any region involvement (target, acquirer, or divestor)

Many of these megadeals were driven by similar sized companies coming together to enhance scale and better position themselves in the global marketplace. This was a common theme in the payments sector, oil and gas, technology, and healthcare, among others. With continued uncertainty around the macroeconomic outlook, companies continued to use stock as consideration to reduce risk and were reluctant to add excessive debt, which resulted in an increased number of merger of equals (MOE) discussions as companies consolidated similar businesses rather than expand into new business segments.

Transactions considered to be MOEs significantly grew in size in 2019. While the overall number of MOEs declined 18% versus 2018, MOE volume reached record levels and increased 68% globally. This increase was most prevalent in North America, where the number of megadeal MOE transactions soared, increasing 250% year over year, representing 93% of the overall MOE volume in North America (seven announced MOE megadeals in 2019 versus two in 2018). As a result, overall MOE volume in the region was up 180%.

Global MOE volume and number of deals ($bn)



Number of deals	2012	2013	2014	2015	2016	2017	2018	2019
NA	6	10	12	25	30	20	27	29
Non-NA	78	56	44	33	29	39	24	13
Global	84	66	56	58	59	59	51	42

Source: Dealogic, as of 12/31/2019
Note: North America includes any region involvement (target, acquirer, or divestor)

Companies also continued to focus on core assets through divestitures and spinoffs in 2019. Many multi-industry companies faced increased pressure from shareholders to evaluate their mix of businesses and portfolio of assets. Both activist and traditional shareholders were more vocal when there were little to no synergies between businesses. These shareholders urged companies to spin off or divest assets to create more focused companies that would be better equipped to pursue their own growth strategy or participate in the M&A market in ways not readily available as part of a larger, more diverse entity. Notably, 12 (60%) of the top 20 transactions that were announced globally in 2019 were related to divestitures, spinoffs, splitoffs, or corporate clarity.

Geopolitical uncertainty was prominent throughout the year and created many headlines, which raised concerns across the globe and affected M&A activity. Cross-border volume was down 13% year over year and represented only 26% of M&A activity, compared with 30% the previous year. This decrease has been driven by a more protectionist sentiment, lower levels of China outbound M&A activity (down 25% YOY), concerns over Brexit, and more muted market activity throughout EMEA. Growing protectionist policies led to companies focusing more on domestic M&A; notably, U.S. domestic M&A announced volume reached record levels in 2019.

The regulatory environment remained challenging. Over the past two decades, M&A markets globally have seen a steady increase in the number of deals blocked completely or partially by antitrust authorities. Certain sectors have experienced greater government scrutiny of mega-combinations, such as the consolidation of the U.S. mobile market (T-Mobile/Sprint and Telefonica O2 U.K./Hutchison Whampoa) and metals and mining sectors (BHP/Rio Tinto's Western Australia Iron Ore JV). Regulators are closely scrutinizing new transactions after multiple waves of industry consolidation. Increased antitrust scrutiny across Europe drove the collapse of two significant mergers in 2019, compounding market concern about the power regulators hold following the Competition and Markets Authority's decision to block J Sainsbury's acquisition of Asda Group for $10 billion and the European Union's decision to block Alstom's $8.7 billion merger with Siemens Mobility Business in the first half of 2019. Since 2000, the global average of transactions blocked has been 4% annually, with the highest share aligned to the most consolidated markets of North America (52%) and Europe (27%). That percentage has crept up to 6% on average over the past four years.

M&A regulatory approvals remain an area of concern for boards and managements. As a result, there is an increased level of preparedness and advanced planning regarding potential divestitures or concessions necessary to secure a successful closing.

2019 key takeaways

- **Coming off a strong 2018, deal activity slowed, but strategic dialogue remained at a high level:** While global announced volumes were in line with 2018 (driven by North America), deal count slowed, largely driven by a decrease in activity from deals less than $10 billion. However, strategic dialogue remained strong as companies continued to use M&A to strengthen their businesses.
- **Megadeals were prominent in North America:** 47 were announced globally in 2019—36 of them in North America—the second highest count in North America on record and up 38% compared to 2018.
- **Similar sized companies united to enhance scale:** With continued uncertainty around the macroeconomic outlook, companies continued to use stock as consideration to reduce risk, which resulted in an increased number of merger of equals discussions.
- **Companies continued to focus on core assets through divestiture and spinoff activity:** Of the top 20 transactions that were announced globally in 2019, 12 deals (60%) were related to divestitures, spinoffs, splitoffs, or corporate clarity.
- **Geopolitical uncertainty was a concern throughout the year, affecting M&A activity:** Cross-border transaction volume in 2019 was down 13% to $1,073 billion, representing 26% of global M&A volume versus 30% in 2018, as growing protectionist policies led to companies focusing more on domestic M&A.
- **Regulatory environment remained challenging:** Regulatory approvals remained an area of concern for boards and managements in 2019, as regulators continued to closely scrutinize new transactions after multiple waves of industry consolidation.

2020—The year ahead

In 2020, we expect M&A activity to be driven by companies looking to strengthen their businesses, particularly during periods of prolonged uncertainty. Equity investors have been rewarding M&A transactions that strengthen businesses and have been penalizing acquirers that have taken undue risk in times of uncertainty. Companies of similar size will likely continue to combine in an effort to enhance free cash flow, dampen earnings volatility, and create a larger creditworthy company that is able to withstand risks and uncertainties in the markets. We expect companies to stick to their core competencies in the year ahead as opposed to adding new growth legs or entering unproven markets.

Global M&A activity has been strongly influenced by economic and trade uncertainty, but we are optimistic that strategic dialogue will remain high, regardless if these issues are resolved in 2020. However, Europe is at risk of losing its competitive advantage after a strong year of transformational deals in the U.S. In recent years, the U.S. has seen a large number of megadeals as companies continue to consolidate their businesses and increase in size. Furthermore, we have seen a shift in the geographic mix of the top 50 global companies by market cap away from Europe and toward North America. Unless Europe resurfaces into the takeover arena, the region is at risk of being sandwiched between a more powerful North America and Asia Pacific (driven by a resurgent Chinese economy).

Private equity firms will continue to stand ready with ample equity and debt capital available to provide alternatives to companies that may have limited options to maximize shareholder value on their own. Furthermore, if valuation multiples start to dampen and public companies are constrained in their ability to deliver capital appreciation on their own, we would expect an increase in public-to-private transactions.

Shareholder activism will continue to play a key role in global markets. While there has been a continuous evolution of activism themes, M&A-driven activism remains the most common, and we expect this theme to continue in 2020. In addition, shareholder activism's expansion outside the U.S. will continue to increase along with the importance of environmental, social, and governance (ESG) issues for both activists and institutional shareholders alike.

2020 key themes

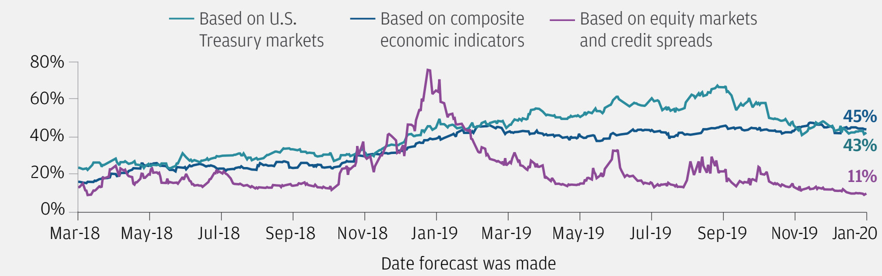
- **Companies will continue to use M&A to strengthen their businesses:** Boards will continue to scrutinize status quo business plans under prolonged periods of uncertainty, which may lead to more openness to exploring combinations with similar sized companies to create value, leading to an increased use of stock as acquisition currency.
- **International M&A market will be competitive:** Europe is at risk of losing its competitive advantage after a strong year of transformational deals in North America; unless Europe resurfaces into the takeover arena, there is a risk the region will be locked between a more powerful North America and Asia Pacific (driven by a resurgent Chinese economy).
- **Private equity will remain active in the M&A market:** PE firms will continue to stand ready with ample equity and debt capital available to provide alternatives to companies that may have limited options to maximize shareholder value on their own.
- **Shareholder activism will persist:** Persistent shareholder activism will put pressure on management and boards to increase shareholder engagement to clearly communicate its strategic priorities and capital allocation objectives.

2 Preparing for the next recession

Companies will continue to use M&A to strengthen their businesses

While investor preference for corporate clarity and business focus has long been observed, we have seen that companies are even more likely to restrict acquisitions to core competencies as the economic cycle enters later stages. With U.S. economic expansion now in its 127th consecutive month, it is no surprise that there is significant focus on the timing and severity of the next recession. Market observers point to numerous possible warning signs of increased recession risk: the length of the current expansion of the U.S. economy, the extent of global geopolitical and trade tensions, as well as periods of an inverted Treasury yield curve.

Probability of recession beginning within 12 months



Source: J.P. Morgan economic and policy research, as of 01/02/2020

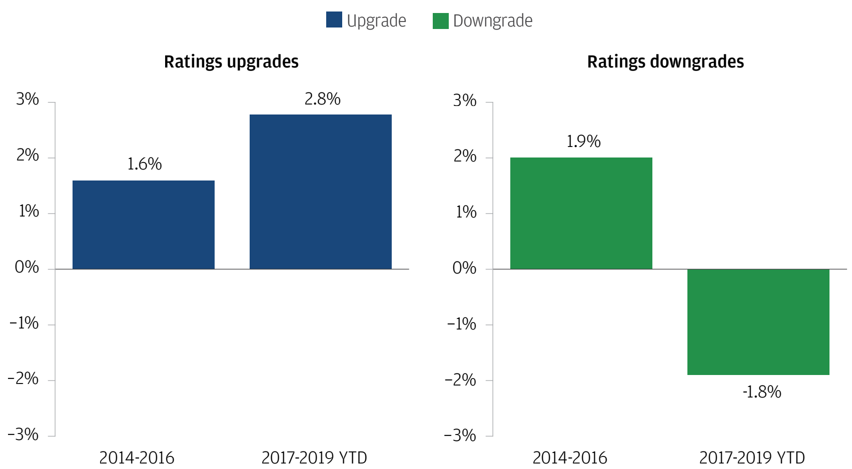
As such, while the precise timing of an economic recession cannot be predicted with certainty, we observe signs that corporations and market investors are accounting for recession risk in evaluating M&A strategies. Cross-sector M&A activity in the U.S. fell from ~36% of announced deals in 2013 to ~26% in 2018, suggesting that companies are looking to grow size and scale within their industry and avoid the added risk associated with cross-sector integration. Similarly, over the same period, cross-industry M&A transactions in Europe decreased from ~41% of overall deal volume in 2013 to ~37% in 2018.

We have also observed that the market has, in general, been less tolerant recently of transactions that require the acquirer to take on a credit ratings downgrade. Earlier in the economic cycle, investors rewarded companies that pursued acquisition strategies, even if those transactions resulted in lower corporate credit ratings. However, this phenomenon has shifted since 2017, as negative ratings changes have become more correlated with adverse equity market reactions to M&A announcements:[1,2]

- Between 2014 and 2016, excess returns five days post-announcement were relatively similar regardless of whether the acquirer had been upgraded or downgraded as a result of the transaction[3]
- However, between 2017 and 2019, markets began to react more cautiously to transactions in which the acquirer's credit rating was downgraded within 90 days of completing the transaction

[1] Source: Bloomberg; measured as a change in the acquirer's S&P rating
[2] Source: Bloomberg; sample set includes completed global M&A transactions announced between 2014 and December 2019, with a transaction value greater than $1 billion
[3] Source: Bloomberg; excess returns relative to the S&P 500

5-day market reaction to S&P ratings changes in the context of M&A



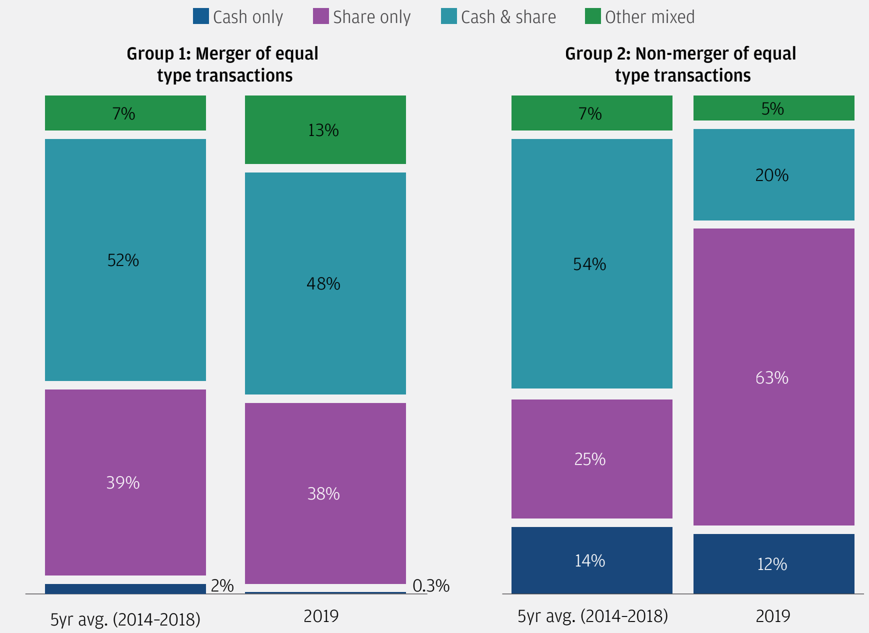
Sources: Bloomberg, FactSet, S&P Global Market Intelligence
Note: Dataset includes global completed transactions with deal value ≥$1bn from 2014 to 2019 YTD, as of 12/16/2019. 5-day return based on median market reaction.

Consistent with this theme, corporations have demonstrated a growing preference recently for all-stock M&A transactions, despite a historically attractive cost of debt for acquirers. From 2010 to 2019, the cost of debt decreased by almost twice as much as the cost of equity.[4] Despite this trend, in recent years, the percentage of all-stock deals as a portion of total M&A activity increased significantly. We view this as an indicator that corporate management teams and boards are prioritizing M&A strategies and structures that fortify corporate balance sheets, as opposed to pursuing higher-upside, but riskier, cash-financed acquisitions. While historically high equity valuations (on a multiple basis) may also explain this increase in the prevalence of stock consideration, such a perspective would be consistent with a defensive posture against a future potential future recession (and corresponding fall in equity valuations).

We expect to see companies look for MOE opportunities where stock is used as an acquisition currency to create an enhanced credit profile for the combined company to withstand prolonged uncertainty. These MOE transactions have traditionally relied on stock consideration, and this trend held true in 2019. In contrast, non-MOE transactions (transactions in which the acquirer is significantly larger than the target company) have historically relied more heavily on cash to fund acquisitions. However, with recession fears we have seen even non-MOE transactions rely more heavily on the use of stock consideration compared to prior years as companies are reluctant to add excessive debt to balance sheets. As we head further into the current economic cycle, we anticipate this increased use of stock as deal currency to continue in 2020.

[4] Source: J.P. Morgan "Morgan Markets"; monthly data from October 2009 to October 2019

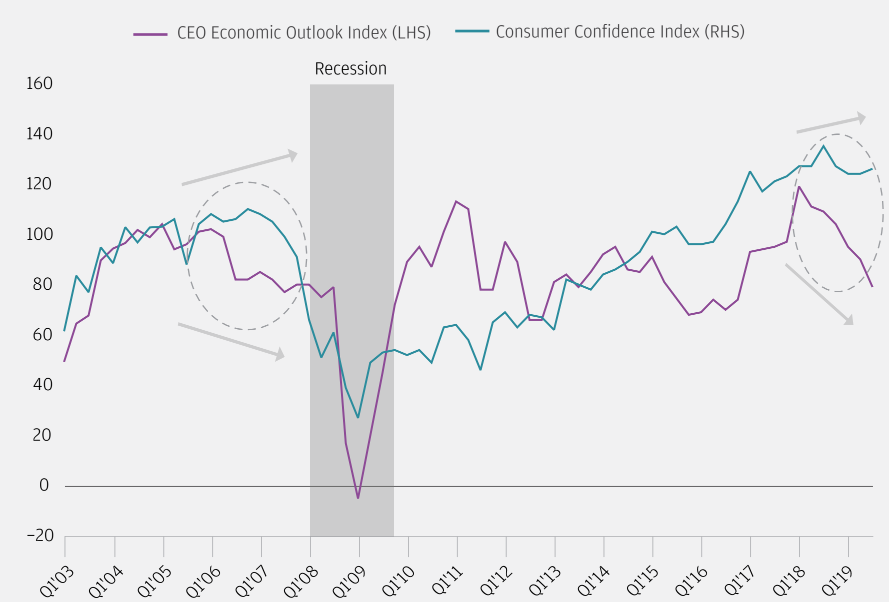
Global M&A consideration mix (% volume)



Source: Dealogic, as of 12/31/2019
Notes: Transactions with deal value ≥$500mm. Group 1: Acquirer market cap <2x of target deal value at announcement (excl. debt). Group 2: Acquirer market cap >2x of target deal value at announcement (excl. debt).

Lastly, while consumer confidence remains at very elevated levels, CEO confidence levels have fallen significantly since peak levels in 2017 and have been trending downward. Decreasing CEO confidence levels may, as a general matter, further drive a preference for fortifying acquisitions (e.g., same sector, scale building) over higher-upside, growth-driven acquisitions.

CEO economic outlook vs. consumer confidence



Sources: Data for the CEO Economic Outlook from the Business Roundtable; data for Consumer Confidence from the Conference Board; all data through September 2019

3

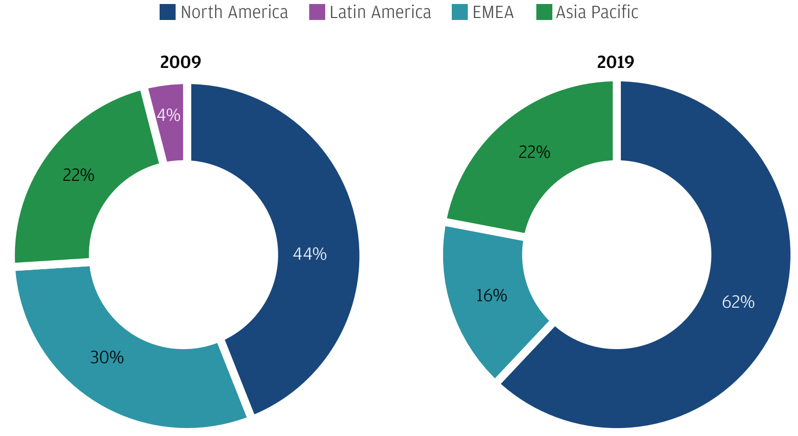
International market observations

International M&A market will be competitive

European M&A market slowed with challenging macro environment and uncertainty

Activity in EMEA continued at a slower pace than in 2018. EMEA inbound volumes were down 54% ($186 billion in 2019 versus $404 billion in 2018). The region also saw a decrease in the number of megadeal transactions (12 megadeals versus 16 in 2018) and was overshadowed by the transformational deals in the U.S. in 2019. Market sentiment in Europe continued to be affected by an economic slowdown and geopolitical uncertainties, including the ongoing Brexit debate. In recent years, the U.S. has seen a large number of megadeal transactions as the global consolidation theme continues. Furthermore, we've seen a shift in the geographic mix of the top 50 global companies by market cap away from Europe and toward North America in the past 10 years. Europe is at risk of losing its competitive advantage after strong recent years of transformational deals in North America. Unless Europe resurfaces into the takeover arena, there is a risk the region will be locked between a more powerful North America and Asia Pacific (driven by a resurgent Chinese economy).

Top 50 global companies by market cap (by region of headquarters)



Source: FactSet, as of 01/03/2020
Note: Market cap excludes exchange traded funds and non-traded shares

Activity in EMEA did begin to pick up in the second half of 2019, with the number of $10 billion-plus deals doubling from 1H 2019. EMEA saw record spinoff volume in 2019 as companies strived to proactively improve corporate clarity, with two of the largest spinoffs ever recorded in EMEA announced and completed—Naspers splitoff of 27% of its International Internet assets division, Prosus NV, for $34.4 billion, and Novartis AG's spinoff of Alcon for $31.4 billion. We are optimistic that EMEA will rebound with a strong year ahead, as this trend toward unlocking the sum-of-parts value by more regularly assessing strategic linkages and financial/operational efficiencies between portfolio assets is likely to continue into 2020 and beyond.

Shareholder activism, a driver of this focus, remains prominent in EMEA, with 56 campaigns launched in 2019. Elliott Management deployed the most capital, having acquired stakes in Saga, RPC, Scout24, OneSavings Bank, Intertrust, and Allergan for a combined $2 billion capital, which represented 46% of the total $4.4 billion capital deployed in the region as of September 2019.

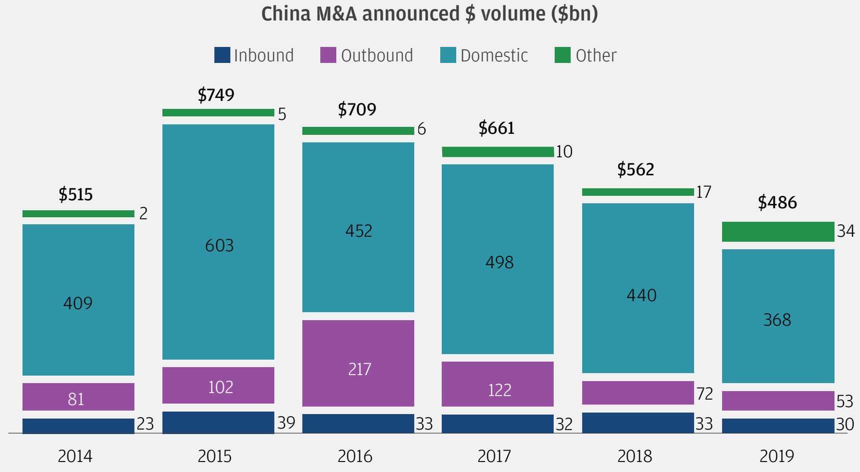
Elsewhere in the market, private equity buyers have continued to look to the public market for take-private opportunities, with 2019 seeing the highest deal volume since 2007. U.K. targets contributed to 45% of this, with agreed offers for Inmarsat ($5.7 billion), Cobham ($5 billion), Sophos Group ($3.7 billion), and BCA Marketplace ($2.9 billion). Given the significant dry powder stockpiles at their disposal, supported by strong financing markets, we expect private equity to be very active in the public and private arenas, although selective at this stage in the M&A/valuation cycle.

While megadeals were more prominent in 2H 2019, it was a slower year for megadeals overall. With the potential for greater clarity at the macro and political levels in 2020, particularly in the U.K., and a potential latency of industry-defining transactions, we anticipate the return of larger deals, resurfacing the region back into the takeover arena.

China M&A market stabilized, with activities picking up despite geopolitical headwinds

China's M&A market experienced a slow start in the first half of 2019 but picked up considerably after June. Despite China's outbound volume being down year over year, outbound activities remained active for investments into Asia Pacific (outside China), Latin America, and EMEA, but witnessed further weakening in North America. Consistent with China's strategic needs, outbound investments in power and utilities, technology, and industrial sectors experienced strong momentum in 2019, with notable transactions including Three Gorges' $3.6 billion cash acquisition of an 84% stake in Peruvian electric company Luz del Sur, Beijing Auto's acquisition of a 5% stake in German automaker Daimler, and Jiangsu Shagang Steel Group's $2.2 billion acquisition of London-based Global Switch Holdings.

China M&A announced $ volume ($bn)



Source: Dealogic, as of 12/31/2019
Note: "Other" reflects divestor/parent from China and target business or acquirer from outside China

In 2019, the trade war between the U.S. and China, along with a tightened CFIUS approval process, made Chinese buyers increasingly cautious when considering targets with significant business presence in the U.S. The expanded CFIUS jurisdiction that is expected to be implemented in 2020 is also expected to generate further headwinds for China's investment in the U.S., particularly for targets involved with advanced technologies, critical infrastructure, or sensitive personal data.

In China, multinational companies, especially those in consumer/retail and enterprise service sectors, continued to explore strategic reviews and partnered with local players, some of which were structured as a divestiture of a controlling stake. High-profile transactions in this category include Metro China's partnership with Wumart, Carrefour's partnership with Suning, and DHL's sale of its supply chain business to SF Express. This is a continuation of a theme that has gained strong momentum since 2017, as we continue to see companies such as McDonald's, Yum! China, Heineken, and Salesforce partner with Chinese companies to strengthen their competitiveness in a fast-changing local market.

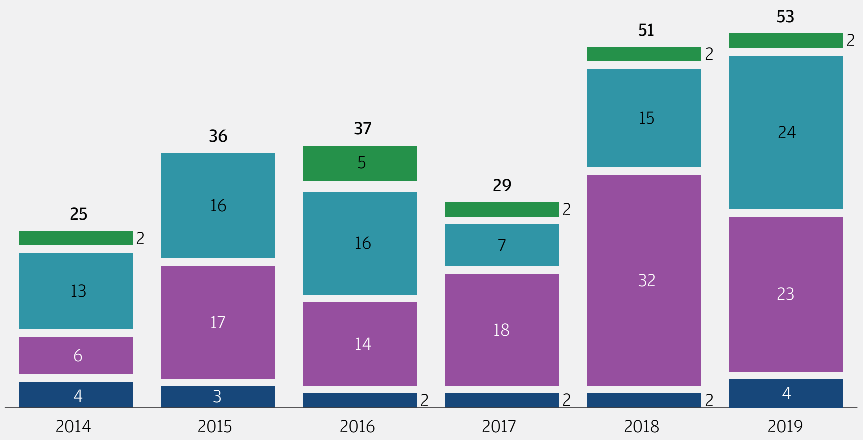
With valuations tapering and more companies considering strategic options, private equity activity in China continued to attract strong interests from investors. For example, PAG successfully closed a $6 billion fundraising in 2019 and Hillhouse managed to raise $10.6 billion in Asia's biggest private equity fund in late 2018. In 2019, Chinese sponsors' deal activity was concentrated on corporate carve-outs, take-private of public companies, and special situations. A notable transaction was the $4.6 billion take-private of China Biologics, which was proposed by a Chinese buyer consortium including Hillhouse, Centurium Capital, and Citic Capital. The formation of a mature financial sponsor industry is expected to be a key driver of long-term growth for China's M&A market.

Looking into 2020, outbound transactions focused on strategic areas will continue to be a main driver for M&A activity in the region. However, potential continued tensions between China and the U.S., along with hurdles expected to be presented by CFIUS this year, may dampen interests in outbound activities to the U.S. Multinational companies will continue to review their China strategy and interest in partnerships with Chinese firms, which will continue to support steady deal activity. Sponsors will remain active in Greater China with additional capital to deploy and attractive valuations.

Japan M&A market remains robust

Although transaction volumes declined in 2019 from 2018's all-time highs, the Japanese M&A market has remained robust, with the number of transactions over $1 billion reaching historically high levels with 53 transactions announced in 2019. The continued low-cost funding environment has allowed for a mix of major outbound transactions by Japanese corporations and strong private equity activity.

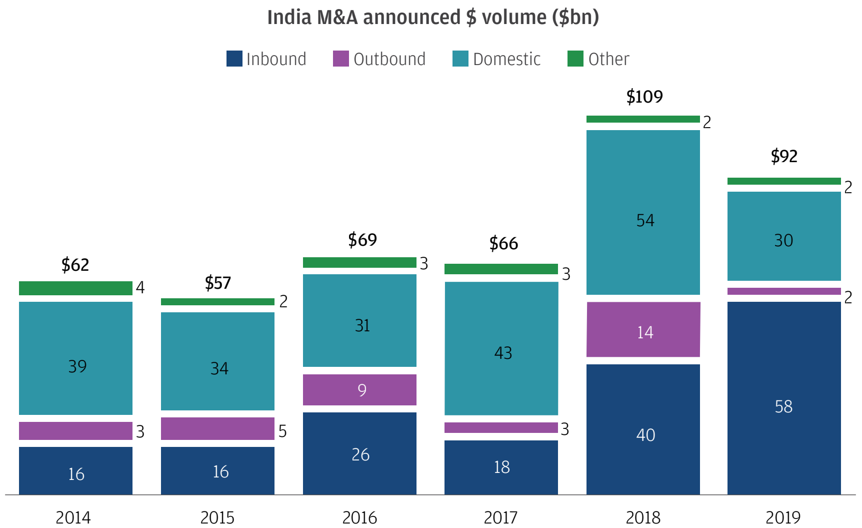
Japan M&A transactions over $1 billion (# of deals)



Source: Dealogic, as of 12/31/2019
Note: "Other" reflects divestor/parent from Japan and target business or acquirer from outside Japan

A key trend expected in the Japanese M&A market in 2020 and beyond will be companies with a diverse mix of businesses executing spinoffs or divestiture transactions to unlock unrealized value. Recent corporate governance reforms in Japan have provided shareholders increased control to pressure management to unlock unrealized value. To further highlight this, the number of activist campaigns and shareholder resolutions submitted are at historical highs. Notable transactions have yet to come, but shareholders of major Japanese corporations, such as Nissan, LIXIL, Olympus, and Toshiba, have all succeeded in increasing their influence by expanding the number of outside directors or appointing board members.

India M&A driven by deleveraging and foreign interest in the country



Source: Dealogic, as of 12/31/2019
Note: "Other" reflects divestor/parent from India and target business or acquirer from outside India

After a record M&A year in 2018, India faced growth challenges in 2019 and businesses shifted their focus to organic initiatives and balance sheet prioritization. Asset monetization by corporate clients to delever balance sheets has been a prominent theme for announced deals, but transaction closure has been challenging. The most notable transaction in 2019 was the announcement of a nonbinding letter of intent for a $15 billion investment by Saudi Aramco for a minority investment in Reliance Industries' Oil-to-Chemicals business. Reliance Industries also announced an investment by The British Petroleum Company in its fuel retailing business and by Brookfield in its telecom tower infrastructure trust in 2019.

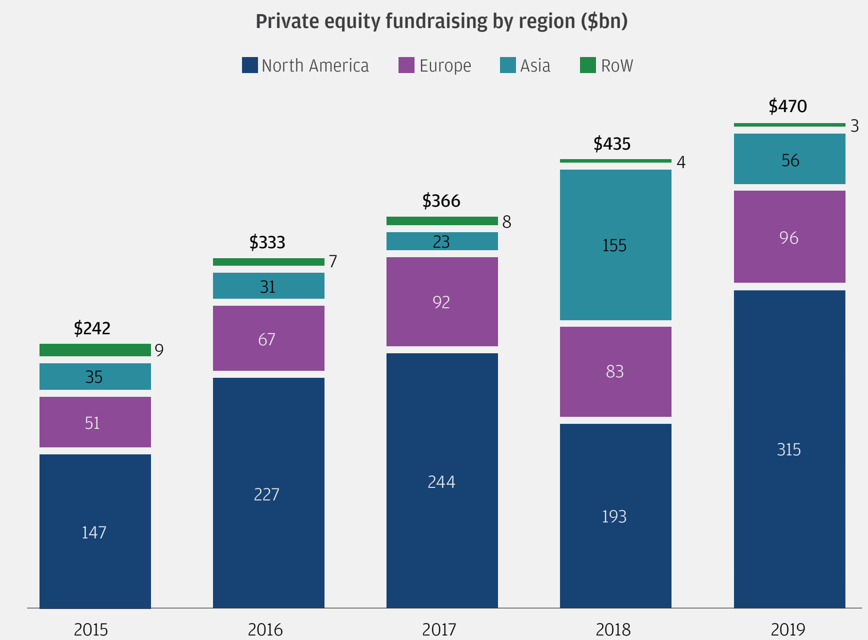
India re-elected its government to power in 2019, but the overall business sentiment was muted, with GDP growth shifting down from 7.5% to the 5% range. The Indian government is focused on encouraging investments—as exhibited by a reduction of the effective corporate tax rate from 35% to 25% in 2019. To compensate for the loss in tax revenue, the government launched a number of high-profile privatizations, including the sale of a 30% stake in Container Corporation of India, the country's largest container train operator with 70% market share and a $5 billion market cap; a 52% stake in BPCL, India's leading fuel retailer with a $16 billion market cap; and Air India, a privately held national carrier. We expect the government to continue to focus on policy changes and initiatives that encourage corporate investments in 2020.

India still remains one of the fastest growing economies in the world, with a relatively open market for foreign investors and buyers. International companies and financial sponsors are monitoring large opportunities to use this period to consolidate their positions in the market. We expect 2020 to witness a large flow of foreign capital into the country.

4 Private equity will remain active in the M&A market

PE firms stand ready with ample equity and debt capital available to provide alternatives to companies that may have limited options to maximize shareholder value on their own

PE fundraising activity has continued to be robust, particularly in North America, where 2019 well exceeded 2018 and among mega-cap sponsors (e.g., in Q3 2019, Blackstone closed a $26 billion fund and Vista Equity closed a $16 billion fund). Low interest rates continue to hold borrowing costs down and bolster the leveraged buyout market. Meanwhile, the amount of dry powder held by private equity funds continues to set records, with approximately $1.4 trillion held in private equity funds in 2019.[5]



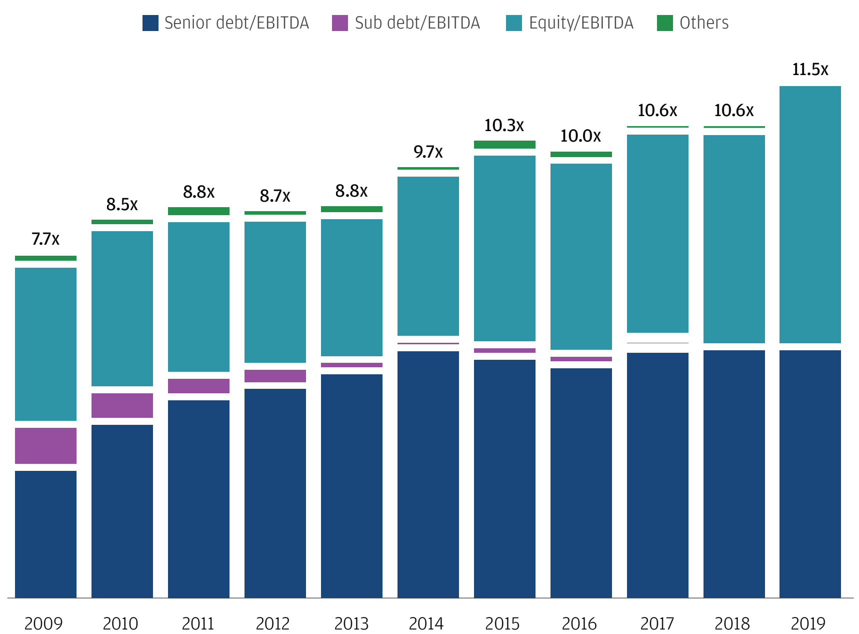
Source: Pitchbook, as of 01/03/2020

As valuations for platform deals remain elevated, add-ons to existing portfolio companies continue to be the largest driver of sponsor deal activity. Add-on acquisitions, whose valuations are typically lower than platform deals and offer multiple arbitrage to sponsor buyers, drove approximately 60% of global sponsor deal volume in 2019.[6] We expect that this will continue to be a meaningful exit opportunity for companies looking to sell outright or divest non-core businesses.

[5] Source: Preqin, as of 12/31/2019
[6] Source: Pitchbook, as of 01/08/2020

If valuation multiples start to retreat and public companies are constrained in delivering capital appreciation on their own, we would expect an increase in public-to-private transactions. As private equity firms continue to fundraise and deploy increasing amounts of dry powder, they can help drive growth for companies across the size spectrum by funding capital needs for strategic acquisitions, operational improvements, and transformational initiatives.

LBO valuation multiples (total firm value/EBITDA)



Source: Leveraged Commentary & Data, S&P Global Market Intelligence, as of 12/31/2019

5 Shareholder activism will persist

Shareholder activism continues to play a key role in global markets

While there has been a continuous evolution of activism themes, M&A-driven activism remains the most common. In addition, shareholder activism's expansion outside the U.S. marches forward, and environmental, social, and governance (ESG) issues have quickly risen in importance for both activists and institutional shareholders alike.

- M&A-driven activism
  Shareholder activists' focus on M&A activity continues to drive a plurality of activist campaigns. Calls for companies to sell themselves or divest individual assets have reached peak levels over the past three years with demands for breakups and corporate clarity at an all-time high, increasing 13% in 9M 2019 compared with 9M 2018. Opposition of announced transactions, where activists are typically seeking a higher price rather than abandoning a deal altogether, is also at a record high.

- Continued globalization of activism
  Activism has grown to be a major and permanent factor in global markets outside the U.S. The growth of activism in Europe and Asia, while showing some signs of slowing, continues to outpace the U.S., where activity has leveled off, supported by both broad corporate governance reform and more aggressive playbooks by U.S.-based and non-U.S. activists. In Europe, campaign volume slowed to 109 campaigns in 9M 2019 from 113 in 9M 2018, driven largely by economic and political uncertainty around Brexit. Local activists remain strong and focused and continue to drive the bulk of activity outside the U.S., accounting for 75% of new campaign launches. In Europe, 74% of campaigns were initiated by European investors in 9M 2019, an increase from 66% in 2018.

- Increased relevance of ESG in activist campaigns
  Companies cannot disregard the importance of addressing ESG issues, a topic that has become increasingly important to both active and passive investors. New activist funds have launched that are exclusively focused on ESG as a pathway to shareholder value creation, while several existing activists have raised ESG-focused funds. Meanwhile, these types of investors continue to play a growing and impactful role in the broader activism landscape, making their positions on ESG increasingly explicit and threatening to withhold votes at companies that do not live up to their expectations.

Currently, single-strategy activist fund AUM is at approximately $125 billion as of Q3 2019. Looking to 2020, we expect global campaign activity to remain at similar levels with continued activism growth outside the U.S. Heightened political uncertainty leading into the 2020 U.S. presidential election, continued questions around trade and tariffs, the prospect of a global economic slowdown, along with uncertainty around Brexit, will provide an interesting landscape in 2020 for new and traditional activists alike. In fact, "short" activists—those who profit from a firm's declining share price—are increasingly capitalizing on periods of market volatility and we expect to see a rise in activist short campaigns globally.

We have observed a number of high-profile activists shifting strategies in response to changing market dynamics. With the rise in ESG-focused investing, JANA Partners liquidated two of its hedge funds to focus solely on activism and its new JANA Impact Capital fund focuses on social activism in particular. We expect high-profile activist shifts to continue, and we will be further witnesses to the proliferation of activist campaign settlements abroad, a rise of control slates (despite their mixed results), and a continued emphasis on activists that bring specific expertise to their target companies.

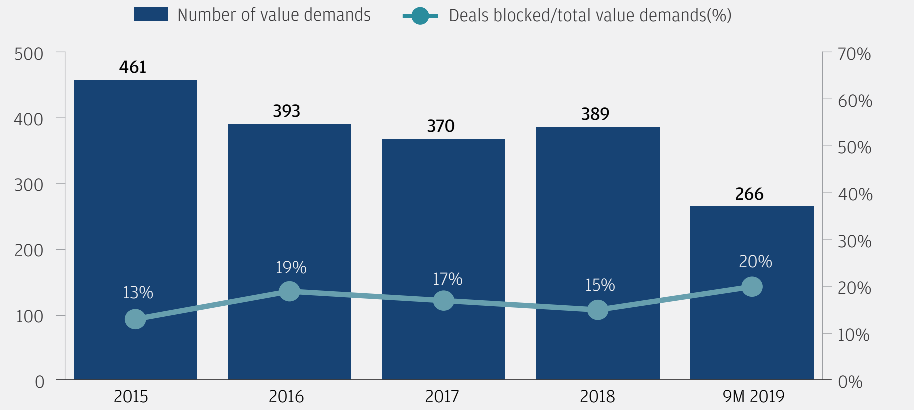
Companies have generally taken a more proactive approach to preparing for potential shareholder activism, and we are strong advocates of this approach. Preparing for a potential shareholder activism campaign is an ongoing process that needs continual refinement, as the field of potential activists broadens and agitation tactics become increasingly complex.

Activists have continued to focus on M&A, corporate clarity-related demands, and other transformative corporate actions. Demands for breakups and corporate clarity (including splitoffs and spinoffs) reached a historical high of 159 in 9M 2019, increasing 13% from the previous 9M. The push for corporate clarity has gained traction both outside and inside the U.S., with examples including Sherborne Investors targeting Barclays in the U.K., Starboard Value targeting Dollar Tree in the U.S., and Third Point returning to target Sony in Japan. Meanwhile, activist agitations for sales or mergers dropped to 70 in 9M 2019 versus 93 for 9M 2018.

In addition to opposing transactions, activists are actively urging companies to go private, particularly where targets need significant restructuring, which would be easier to undertake in a private setting. U.K.-based entertainment company Merlin Entertainments agreed to be sold to a consortium of investors after ValueAct Capital began agitating. Also, Vintage Capital offered dining chain Red Robin a takeover bid, which it ultimately rejected. Elliott Management sent a letter to QEP in the beginning of 2019 with an acquisition proposal, leveraging Elliott's growing success marrying its activism activity with its Evergreen Coast Capital private equity vehicle, but the campaign was settled when two new directors were added to the board (neither affiliated with Elliott). Lastly, in May, Reuters reported that Mantle Ridge was exploring forming a consortium of private equity firms and sovereign wealth funds to bid for Aramark before launching a more traditional activist campaign.

Beyond agitating for sell-side M&A, activists continue to oppose announced transactions, doing so on 53 occasions in 9M 2019, an increase of 36% from 9M 2015.

Activists blocking transactions globally*



Sources: FactSet, Activist Insight, and Activist Monitor, as of 09/30/2019
*Includes U.S., Europe, Asia, and Australia
Notes: Represents the following campaign types: board control and representation, enhance corporate governance, maximize shareholder value, remove director(s), remove officer(s) and vote/activism against a merger. Value demands include: seek sale/merger/liquidation, review strategic alternatives, block transaction, break up company, divest assets/divisions, separate real estate, return cash via dividends/buy-backs, other capital structure-related, increase leverage, etc.

Typical activist arguments revolve around the transaction valuation being too high or too low, depending on which side the activist is targeting (with some cases having had activists on both sides). This opposition to announced M&A transactions represented 20% of global value (strategy and M&A-related) demands in 9M 2019. In 2019, three transformative transactions—Cigna's merger with Express Scripts, United Technologies Corporation's merger with Raytheon, and Bristol-Myers Squibb's merger with Celgene—received resistance from Carl Icahn, Third Point and Starboard Value, respectively. In all these instances, institutional shareholders were vocal campaign participants and their involvement demonstrated different ways activists can influence the outcome of an M&A transaction. However, despite the increased pressure and levers at their disposal, activist success in stopping an announced transaction is mixed at best. Cigna merged with Express Scripts and Bristol-Myers merged with Celgene, while United Technologies' shareholders voted to approve the company's merger with Raytheon. Looking forward, we expect activists to push aggressively for M&A and go-private transactions, particularly while valuations remain high and capital markets remain receptive to deal-making.

6 Outlook recap

We anticipate strategic dialogue to remain at a high level in 2020, despite uncertainty

In 2019, we saw a large number of transformational megadeals ($10 billion or more), particularly in North America. Many of these transactions were driven by similar sized companies coming together to enhance scale and better position themselves in the global marketplace. North America exhibited a strong first half, driven by megadeals, but the region began to be affected by concerns of slowing global growth in the second half of the year. Despite this concern, activity in the rest of the world outside of North America experienced an increase in targeted volumes in the second half of 2019. However, geopolitical uncertainty remained a headwind throughout the year, affecting M&A activity. As a result, cross-border activity declined as growing protectionist policies led to companies focusing more on domestic M&A; notably, U.S. domestic M&A announced volume reached record levels in 2019.

While macroeconomic and geopolitical uncertainty will likely continue to affect markets in 2020, expectations are that strategic dialogue will remain high. We expect M&A activity to be driven by companies looking to strengthen their business to better withstand periods of uncertainty. Priority M&A deals will likely be the ones where cash flows are enhanced, earnings volatility is dampened and balance sheet strength is maintained or improved. Markets around the globe will keep a watchful eye on the European M&A market, pressuring the region to resurface into the takeover arena to maintain its competitive advantage. The significant equity and debt capital available to provide alternatives to those companies that may have limited options to maximize shareholder value on their own will also continue to drive volume, enabling many deals that were once unattainable. Lastly, and of equal importance, shareholder activism will stay at an elevated level, putting pressure on management teams and boards to increase shareholder engagement and to clearly communicate their strategic priorities and capital allocation objectives.

7 About J.P. Morgan M&A Advisory

We advise corporations and institutions of all sizes on their most complex strategic needs, in their home markets and around the world. Whatever your strategic challenge or opportunity, J.P. Morgan provides a full M&A offering to address your needs. Drawing upon our deep industry-specific expertise and regional market acumen, we can evaluate your business with a long-term view to provide a tailored, comprehensive, and integrated solution.

Our scale and breadth of experience with shareholder activism means we provide a differentiated approach when advising our clients. We have successfully engaged with all the major activists in some of the most sophisticated campaigns around the world, and our deep understanding of activist tactics and firsthand knowledge brings unparalleled experience to each situation.

Clients benefit from J.P. Morgan's global experience, leveraging our specialized advice, swift strategic execution, and strong resources to help seize opportunities and solve problems.

Our bespoke solutions combine:

- In-depth knowledge of sector and market dynamics with M&A bankers based locally in most major markets globally
- Innovative advice on valuation, transaction structures, deal tactics, and negotiations
- Rigorous execution delivered with responsive and agile service
- Ability to partner with product experts across our full range of competencies, including comprehensive financing through our debt and equity issuance platforms, as well as derivatives solutions, treasury services, and escrow services

J.P. Morgan provides M&A advisory solutions across the full strategic life cycle of our clients:

Strategic expansion

- Acquisitions, including cross-border opportunities
- Mergers and joint ventures

Enhancing business value

- Corporate combinations
- Divestitures
- Capital restructuring projects
- Spinoffs and other repositionings

Shareholder strategy

- Defense preparations for publicly announced and non-public approaches
- Dedicated shareholder activism advice

8 Select J.P. Morgan-advised transactions in 2019

Cross-border deals

2019 $100.0bn Advisor to **Celgene** on its sale to Bristol-Myers Squibb	Pending $85.0bn Advisor to **Allergan** on its sale to AbbVie	Pending $69.1bn Advisor to **Saudi Aramco** on its acquisition of 70% stake in Saudi Basic Industries	2019 $56.5bn Advisor to **Anadarko Petroleum** on its sale to Occidental Petroleum	2019 $55.2bn Advisor to **Dow DuPont** on the divestiture of its Materials Science division
2019 $47.6bn Advisor to **Fiserv** on its merger with First Data	2019 $34.4bn Advisor to **Naspers** on the spinoff of its international internet assets	Pending $32.3bn Advisor to **Fiat Chrysler** on its acquisition of Peugeot	Pending $28.4bn Advisor to **TD Bank** in connection with Charles Schwab's acquisition of TD Ameritrade	2019 $27.7bn Advisor to **Global Payments** on its merger with Total System Services
Pending $22.2bn Advisor to **Line Corp.** on its privatization by NAVER & Softbank and subsequent merger with Z Holdings	Pending $21.4bn Advisor to **General Electric** on its sale of BioPharma division to Danaher	2019 $20.2bn Advisor to **DowDuPont** on its spinoff of agriculture division	2019 $18.8bn Advisor to **CBS** on its merger with Viacom	2019 $18.7bn Advisor to **Blackstone** on its acquisition of GLP's U.S. logistics assets
Pending $18.6bn Advisor to **IAC** on the spinoff of its 80% stake in Match Group	Pending $18.0bn Advisor to **LVMH** on its takeover offer of Tiffany	Pending $18.0bn Advisor to **Centene** on its acquisition of WellCare Health Plans	Pending $17.5bn Advisor to **Eldorado Resorts** on its acquisition of Caesars Entertainment	Pending $14.3bn Advisor to **Zayo** on its sale to Digital Colony and EQT
2019 $11.0bn Advisor to **Eli Lily** on its divestiture of Elanco animal health business	2019 $10.7bn Advisor to **Broadcom** on its acquisition of Symantec's ENT security business	Pending $10.3bn Advisor to **Keppel** on sale of its 31% stake to Temasek and Kyanite	2020 $10.3bn Advisor to **The Medicines Company** on its sale to Novartis	Pending $10.1bn Advisor to **Infineon** on its acquisition of Cypress Semiconductor

Source: Dealogic, as of 12/31/2019
Note: Year represents year of deal completion; pending represents deals not yet completed

Cross-border deals

2019 $9.6bn Advisor to **Disney** on its sale of 21 regional sports networks to Sinclair	2019 $8.1bn Advisor to **CapitaLand** on its acquisition of Ascendas-Singbridge Group	Pending $7.3bn Advisor to **ZF Friedrichshafen** on its acquisition of WABCO	Pending $6.9bn Advisor to **Mellanox** on its sale to NVIDIA	2019 $6.8bn Advisor to **Almacenes Exito** on its sale to Companhia Brasileira de Distribuicao
2019 $6.5bn Advisor to **Hess Infrastructure Partners** on the structural simplification of Hess Midstream Partners	Pending $6.5bn Advisor to **CNP Assurances** on La Poste's acquisition of controlling stake in the company	2019 $6.7bn Advisor to **Acelity** on its sale to 3M	Pending $6.2bn Advisor to **Hudson Bay Co.** on its sale of remaining 82.5% stake to Catalyst Capital	Pending $6.1bn Advisor to **Aroundtown** on its merger with TLG Immobilien
2019 $5.8bn Advisor to **Berry Global Group** on its proposed acquisition of RPC Group	2019 $5.8bn Advisor to **Johnson & Johnson** on its acquisition of Auris Health	2019 $5.7bn Advisor to **Inmarsat** on offer from consortium consisting of Apax partners & others	2019 $5.6bn Advisor to **KKR** on its offer to acquire 44.3% stake in Axel Springer	Pending $5.6bn Advisor to **Capgemini** on its acquisition of Altran Technologies
Pending $5.5bn Advisor to **Abertis** and **GIC** on its acquisition of 70% stake in Red de Carreteras de Occidente in Mexico	Pending $5.5bn Advisor to **Apollo** on its acquisition of Tech Data	Pending $5.4bn Advisor to **ADO Properties** on its all-share offer for ADLER Real Estate and concurrent acquisition of a strategic 22% stake in Consus	2019 $5.4bn Advisor to **DSV** on its offer for Panalpina Welttransport	2019 $5.2bn Advisor to **UGI Corp.** on its acquisition of AmeriGas Partners
Pending $5.1bn Advisor to **Wright Medical** on its sale to Stryker Corp.	Pending $5.0bn Advisor to **Cobham** on its offer by Advent International	Pending $5.0bn Advisor to **Sprint** on its sale of Boost Mobile to Dish Network	Pending $4.9bn Advisor to **Danaher** on the splitoff of its remaining stake in Envista	Pending $4.8bn Advisor to **SBB Norden** on its acquisition of Hemfosa Fastighete

Source: Dealogic, as of 12/31/2019
Note: Year represents year of deal completion; pending represents deals not yet completed

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