

Corporate Development 2018 Outlook



CORPORATE DEVELOPMENT OUTLOOK: POLITICS, PROCESSES AND PREDICTIONS

Lawyers should be pleased with polling results from our most recent webinar, Corporate Development Outlook: Politics, Processes and Predictions. Corporates (43%) and private equity (47%) from both sides of the Atlantic said they expected to need the most advisor assistance in navigating the implications of new regulations. Meanwhile, only 3.5% of all respondents placed cost and pricing transparency at the top of the list of advisor criteria.

PFIZER, NORTHROP GRUMMAN, MASTERCARD AND GLOBALLOGIC

More than 1,400 corporate development and M&A professionals from around the world watched this Merrill Insight webinar, which featured live video audience watched speakers from Pfizer, Northrop Grumman, Mastercard and GlobalLogic debate corporate development opportunities for the year ahead. The discussion was punctuated with six audience polling questions, focused on key issues facing today's dealmakers, providing Merrill with a robust data set.

WE'VE INCLUDED FULL SURVEY RESULTS BELOW AND RELATED COMMENTARY FROM OUR WEBINAR PANELISTS, BUT SOME INTERESTING HIGHLIGHTS:

+ **44% of Americas and 51% of EMEA corporates believe companies are most likely to deploy funds for inorganic growth in 2018.**

+ **Globally, 48% of all respondents listed high valuations as the biggest deal-making challenge this year.**

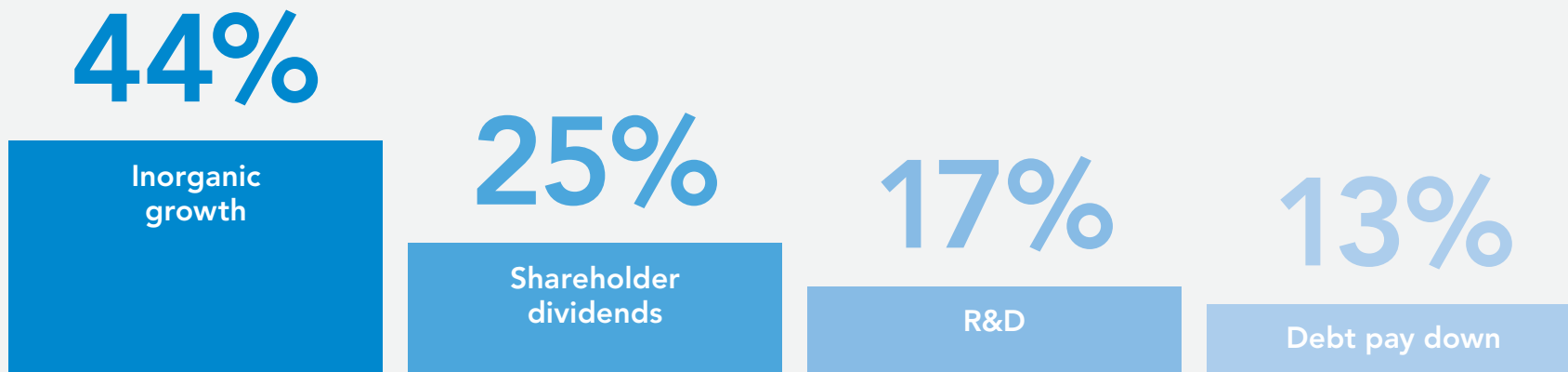
+ **Another 31% highlighted political and regulatory uncertainty as the chief deal-making headwind going into 2018, with an additional 10% saying they were most concerned about another black swan event.**

+ **Big Data (32%) almost tied Artificial Intelligence (31%) as the as most impactful technology trend to watch for the next five years, according to corporate respondents. Meanwhile, 59% lawyers voted for AI, the strongest preference expressed amongst role types represented in this data set.**

+ **A strong 45.5% of respondents agreed integration is the chief internal management challenge corporates face, with the remaining responses were more evenly divided between technology disruption, talent retention and cutting costs.**

+ **Sector experience is by far the most important criteria in choosing an advisor, 73% respondents said. Meanwhile, 10% of all corporates and private equity ranked responsiveness as a top priority– while no accountants and only a single banker seemed to agree.**

Question 1: Where are companies most likely to deploy funds in 2018?



By 44.3% all respondents were aligned in their bullish M&A take for the year, anticipating companies were most likely to deploy cash for inorganic growth. EMEA corporates were even more bullish than the Americas, with 51% predicting inorganic growth vs. 44% in the Americas. The Americas and EMEA audiences were slightly split on where companies would deploy funds after inorganic growth, however. After inorganic growth, 26% of Americas chose shareholder dividends while 26% of EMEA picked R&D.

A closer look at the data suggests the shareholder dividends and R&D divide may be mainly driven by a phalanx of research-minded EMEA lawyers, 67% of whom picked R&D. Looking just at corporate polling results, shareholder dividends came in a strong second place for both Americas and EMEA corporates at 27% 24% respectively.

"We're going to see more international competition come in; we haven't seen clear-cut evidence yet but anecdotally there have been a number of times we've been surprised by it. The size and strength of the US economy and especially aerospace and defense is bringing in all sorts of new players."

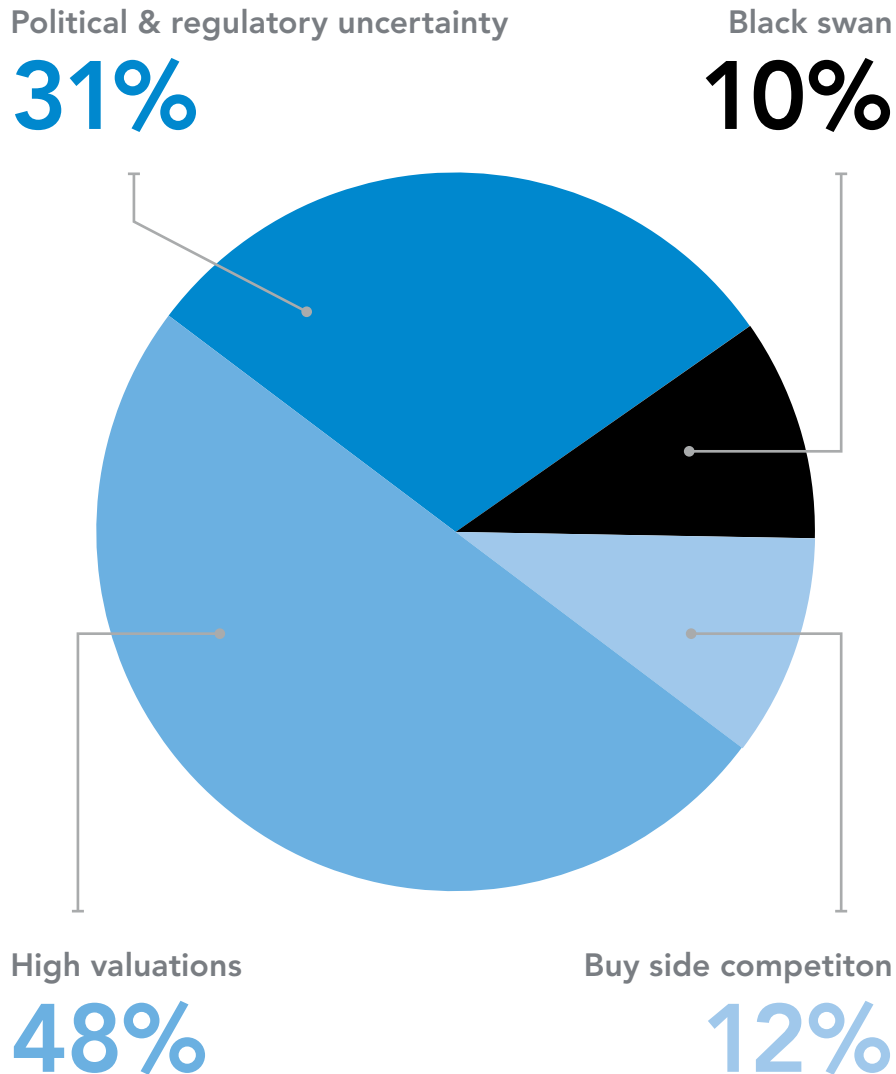
Justin Gans, Northrop Grumman

"Investment, broadly speaking, is the theme that's emerging from the narrative around the use of benefits of the US tax reform – investment in organic and inorganic growth and investment in strengthening balance sheets and return of capital, but also important investment in corporate social responsibility and US-focused community initiatives and employee compensation, retirement planning, development and benefits."

Alan Konevsky, Mastercard



Question 2: What market headwinds are you most concerned about in 2018?



Globally, 48% of all respondents listed high valuations as the biggest deal-making challenge this year, with private equity (53%), bankers (56%) and accountants (50%) most concerned about a frothy pricing market. Deal-makers also discussed this issue with us in our January Forecaster.

Political and regulatory uncertainty came in close behind valuations, with a strong 31% finish. Though a black swan event came in last among concerns globally at 10%, 18% of EMEA respondents ranked it as their top headwind vs. 9% in the Americas. Combined with political and regulatory uncertainty, that means that 41% of the global audience sees external market factors as the chief challenge facing the 2018 deal environment.

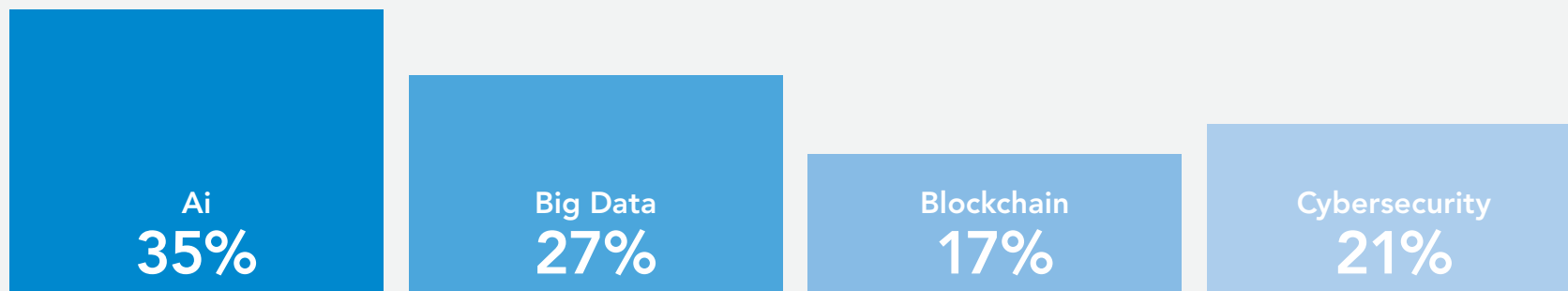
"I've heard a lot of different discussions about how much the US tax reform bill is already reflected in valuations right now. It will be very interesting to see how that flows into sellers', management's and Boards' expectations about price and premiums."

Raechy Wang, Pfizer

"Target companies choosing not to sell and instead continuing on their own growth paths remains an important competitor in and of itself, even though it may not be discussed very much."

Jonathan Rothenberg, GlobalLogic

Question 3: What technology trend do you expect to have the greatest impact on your sector in the next five years?



By 35%, all respondents thought Artificial Intelligence (AI) was the technology trend most likely to have the greatest impact in the next five years. A closer look at the data reveals corporates slightly preferred Big Data (32%) to AI (31%), with an astonishing 59% of lawyers pushing AI to the top spot compared to only 8% choosing Big Data. The Americas placed greater weight on cybersecurity as a disruptive trend with 23% voting it in, whereas 20% of EMEA respondents considered blockchain to be most impactful.

"Software is eating the world. Marc Andreessen wrote that many years ago... We've seen statistics showing that the space shuttle had about 400,000 lines of code built into it. Fast forward to the 787 Dreamliner, which is about 30 times that amount, and then when you talk about autonomous cars it's about 10 times that." **Jonathan Rothenberg, GlobalLogic**

ON THE FUTURE OF DEFENSE

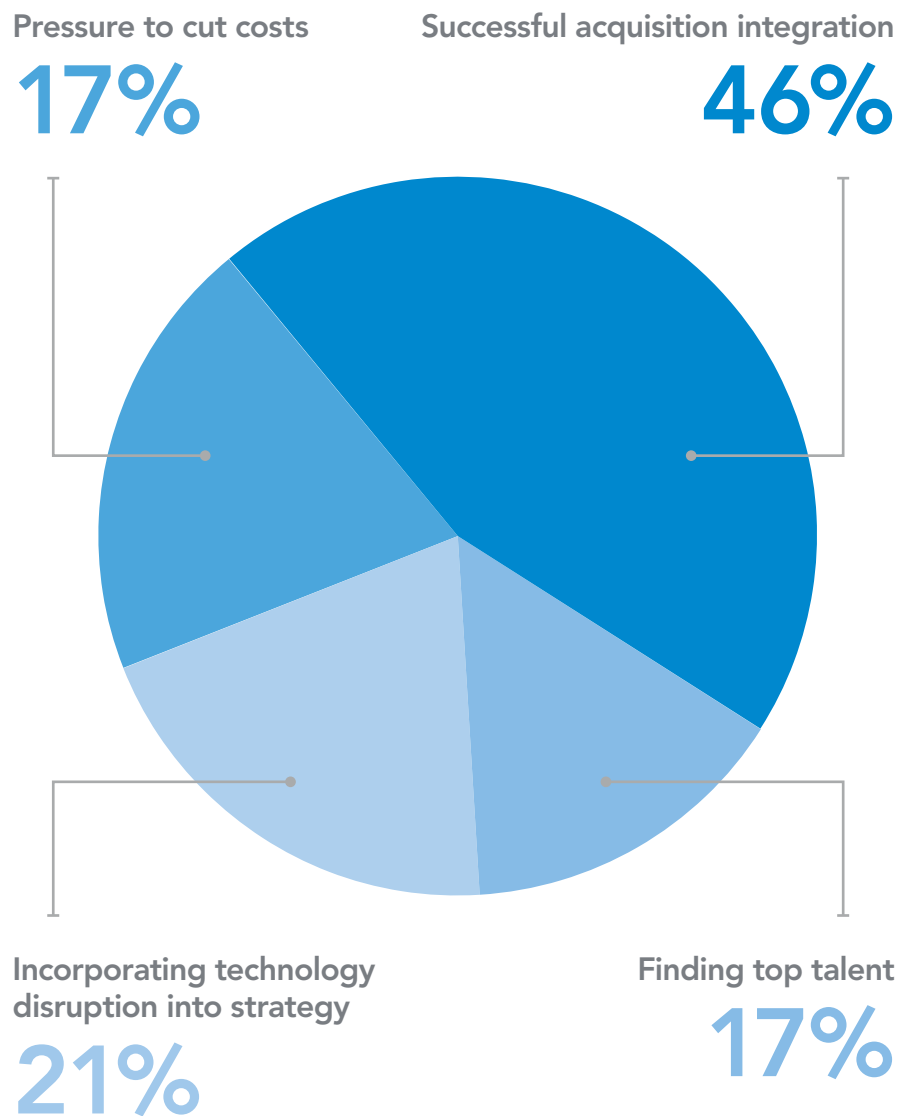
"Artificial intelligence has the ability to change how everything works, both in our daily lives as regular consumers but also how future wars are fought. In the near future, you'll see an individual ground soldier is going to have a wealth of information and real-time intelligence right at his/her own fingertips ... and the ability to leverage the unmanned platforms we think will continue to proliferate. As computers get better at making decisions for themselves, drones will truly become autonomous; the same thing will happen with ships and vehicles."

Justin Gans, Northrop

"Pfizer is leveraging IBM Watson's machine learning and cognitive capabilities to help us speed drug discovery and understand patient selection and safety better." "The average scientific researcher can go through 200 to 300 medical journals in a year. Watson can go through tens of millions of pieces of data and journal articles, and be able to mine different patterns within the data... Ultimately, we hope for more efficiency and speed in the way we discover drugs." **Raechy Wang, Pfizer**



Question 4: What is the greatest internal management challenge facing corporate development departments?



An incredible 46% of the audience agreed successful integration is the greatest internal management challenge corporations face. This answer was startlingly consistent across respondents, with two exceptions: 33% of lawyers saw the pressure to cut costs as the greatest challenge, and 43% of private equity ranked incorporating technology disruption first. Overall, technology disruption came in second with 21% of the vote, with finding and retaining top talent (17%) and pressure to cut costs (16%) a close second and third.

"Integration should start at the very inception of the deal idea. Deals fail not because you failed to negotiate a rep or warranty; most deals fail because you didn't execute on the business case, because you didn't anticipate costs, because you didn't anticipate your market challenges, because you didn't anticipate cultural fit, because you didn't anticipate connectivity to your existing products and services."

Alan Konevsky, Mastercard

Question 5: What criteria are most important in choosing an advisor?

No polling question received stronger agreement than respondents 73% consensus that sector experience is the single most important criteria in choosing an advisor. Interestingly, while 18% of lawyers and 10% of corporates listed responsiveness as critical; no accountants and only one banker said it was most important. Meanwhile, 19% of bankers and 18% of lawyers were most likely to cite prior relationship as the top criteria, versus 13% of all corporates.

Sector specific experience

73%

Prior relationship

14%

Responsiveness

9%

Cost & pricing transparency

4%

SECTOR KNOWLEDGE RANKS #1

"Industry knowledge and relationships and contacts, whether on the buy-side or sell-side are critical. As a seller, you want to make sure the advisor knows who all the likely buyers are, really the personalities and decision makers, and what their true strategic priorities are. They need to help you figure out who's serious and who's not serious."

Jonathan Rothenberg, GlobalLogic

"In-house functions on the corporate development side have become more robust over the last few years, so the need for advisors has gotten a lot sharper. That doesn't mean just knowing the sector from reading public filings, but knowing the people. The other part is knowing you really well, and what's important to you strategically, how you think about building your model, how you think of due diligence and risk. That kind of knowledge-based relationship is critical."

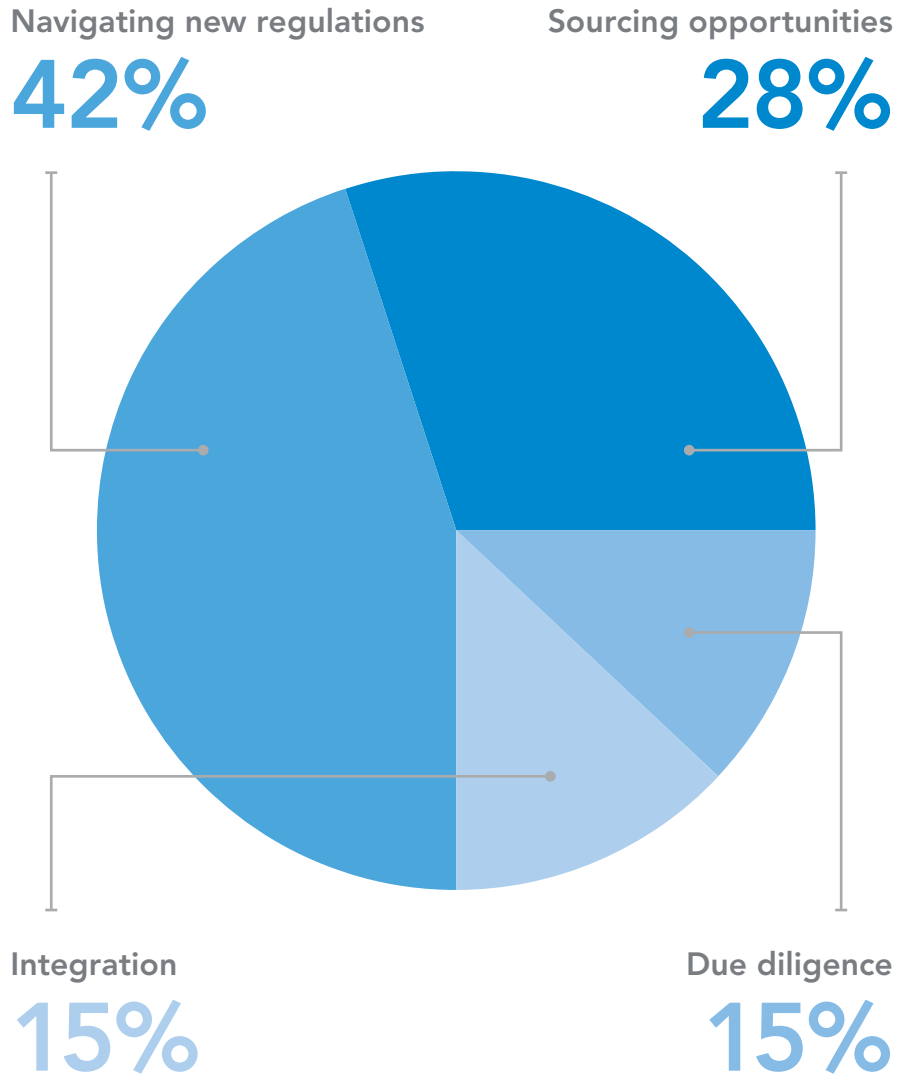
Alan Konevsky, Mastercard

"Especially with tax reform - and looking ahead to potential changes to the Affordable Care Act - I think being able to have advisors to help us decode all the regulations and understand all the implications is very critical. We haven't talked about geopolitical changes, but there's a lot going on in the world. It's very important for advisors to be trusted, and know the right people and know how to navigate a market like China, know how to navigate what's going on in Europe."

Raechy Wang, Pfizer



Question 6: Where will corporate development professionals need the most advisor assistance in 2018?



A consistent 42% of all poll respondents listed new regulations as the area where corporates will need the most help in 2018. This number rose slightly when just evaluating the corporate audience, who rated it 44% most important in the Americas and 43% highest priority in EMEA. Private equity polled highest, however, with 47% of respondents picking regulatory implications. Unsurprisingly, 50% of lawyers agreed. Meanwhile, 59% of bankers picked sourcing potential opportunities, and 50% accountants listed integration. Corporates were a lot less bullish on sourcing deals and integration than bankers and accountants, choosing deal sourcing by 27% and integration by 13%. One potential bright spot for bankers: corporates also choose assistance with due diligence by 16%.

"We hope to have quite a large integration challenge coming up, so if I had to pick one that's what it would be. But I think we're going to have a busy year, so the tax code and legal challenges are always part of any transaction. Those three areas are where we will need support."

Justin Gans, Northrop Grumman

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