

## Hogan Lovells offers optimistic outlook on 2018 M&A and tax activity

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### *M&A Roundtable Recap*

At a recent media roundtable in Washington, D.C., partners from the Hogan Lovells M&A, Tax, and Antitrust practices discussed the 2018 outlook for companies trying to increase their merger and acquisition activity and possible effects of the recent federal tax overhaul. Moderator Bill Curtin, Global Head of the firm's M&A practice, set the stage by saying the current environment is very conducive and constructive to transactional activity. He also said that Hogan Lovells is optimistic -- and expects 2018 to be a busy year.

Capital markets are at record highs, credit is available and there's a prevailing positive psychology. And companies are generally healthy and strongly positioned for transactional growth, Curtin said. However, uncertainties associated with emerging populism trends in key markets, evidenced by Brexit in the UK and the U.S. election of President Donald Trump, combined with geopolitical risk from regions such as North Korea, could disrupt confidence and momentum, he said.

Partners at the roundtable dove deeper into the 2018 outlook with discussions of the following topics:

### **M&A and Private Equity**

Like Curtin, partner Elizabeth Donley is optimistic about a robust year for M&A -- pointing to companies with cash to spend on their stated goals and easing regulatory uncertainties. For 2018, she predicted an increase in divestiture transactions, more technology deals, and companies thinking outside the box with more deals across industry lines. Shareholder activism will also continue to be an important influence and driver of M&A activity, Donley said.

Regarding the prospects of private equity, partner Mahvesh Qureshi was equally optimistic about robust activity in 2018 and said she expected the middle market to continue playing a key role and private equity doubling down on sector, vertical, and industry expertise as a strategy to win more deals. With private equity sitting on a lot dry powder that needs to be spent this year, Qureshi expects private equity to partner up with other firms (or within their limited partner ranks) to bridge valuation expectations as another strategy to win more deals. Compared to this time last year, Qureshi said she is seeing an uptick in sell-side activity by private equity to take advantage of tail winds.

## **Tax Reform**

Late last year, President Trump signed into law the largest overhaul of the U.S. tax system in over 30 years. Partner Jamie Wickett called this an exciting time for tax policy and added that it was hard to overstate the bill's impact for multinational and domestic companies. One of the overhaul's main pillars is a reduction in the corporate tax rate, which partner Jasper Howard said was something that had bipartisan support for years, despite the final (partisan) vote.

Under the new U.S. tax law, many companies will be more incentivized to bring overseas cash back to the U.S. and use it to bolster M&A activity, pay down debts, or pay out dividends. Despite the overall cut in the corporate tax rate, which will be particularly helpful to the retail sector, Wickett added that one of the most underreported stories so far about U.S. tax reform is that it's not necessarily positive for all companies. Measuring the true impact will require looking at a company's effective rate before the overhaul while considering tax increases to some companies resulting from provisions like the new tax on "global intangible low-taxed income" for companies with income in low-tax foreign jurisdictions. Such income is now subject to a 10.5 percent U.S. tax, though may be offset in part by foreign tax credits. Howard agreed, saying multinationals have the most uncertainty and could see wide variations in tax rates over the next few years. However, both said the overhaul presents a lot of opportunity for deal activity.

## **Antitrust and FTC**

Companies considering vertical deals have more antitrust risk to consider right now despite a general feeling of optimism. That's according to Edith Ramirez, co-head of the firm's Antitrust and Competition practice and a former Federal Trade Commission chairwoman. Deals with the potential to disrupt major industry sectors such as healthcare are likely to face close scrutiny from the FTC and Justice Department over antitrust concerns.

There is also some uncertainty, she said, because the FTC is currently operating without a permanent head and only two commissioners. That's not ideal, but Ramirez applauded the agency for continuing to function at a high level -- and she remained hopeful that additional members would be appointed and confirmed soon. Addressing concerns about the expiring terms of the two remaining commissioners, Ramirez said the FTC's governing statute allows them to stay on past their terms until replacements are confirmed. She did not expect the remaining commissioners to leave their roles until then.

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