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M&A OUTLOOK 2016

SELLING YOUR COMPANY?

TAKE A FEW STEPS IN THE RIGHT DIRECTION

If it's time to sell up, or take a new direction, you need to find the right M&A adviser to work alongside. And it's true what they say, the right advice can mean millions of pounds to you. At Panmure Gordon, we believe our track record of helping Entrepreneurs like you speaks for itself. And to show you we mean business, here's a straightforward guide to the key points you'll need to consider.

1 APPOINT ADVISERS EARLY

Experienced M&A advisers will help you plan properly and achieve significantly better value.

2 UNDERSTAND YOUR VALUE

Entrepreneurs can significantly over or undervalue their business. A good adviser will determine the correct range and help you get there.

3 KNOW WHAT YOU WANT

Retiring, hitting the beach or rolling the dice again? It's crucial to know what you want so the deal can be structured correctly - the structure will be a large determinant of value.

4 PLAN FOR TAX

The deal structure can have material tax implications. Take tax advice as early as you can.

5 PREPARE PREPARE PREPARE!

Detailed management accounts and information? Staff contracts in place? Incentive schemes for the key team? Forecasts robust? Preparing for sale is typically a longer process than the sale itself. But vital!

6 WHO DO YOU WANT TO SELL TO?

For most founders, their company is their legacy with loyal staff and an individual spirit. Good advisers will know the obvious buyers but your understanding of the culture will be crucial.

7 CONSIDERED ALTERNATIVES?

You don't just have to sell to a competitor. A strong management team may wish to buy the company backed by private equity. Development capital could help you take your business to the next level and you could sell a couple of years later at an increased value. You may even be ready for an IPO.

8 TARGET YOUR SALE PROCESS

Some 'business brokers' will just send an overview of your company to hundreds of email addresses and intermediaries, lowering its potential appeal and value. Sector-focused quality M&A advisory firms will know the key decision-makers at the buyers personally.

9 UNDERSTAND THE PROCESS

Your adviser should explain all the ins and outs of a sale process in advance so you know what's coming - avoiding the risk of unscrupulous buyers who negotiate hard and catch you out on 'adjustments'.

10 TAKE A DEEP BREATH

This is probably the biggest financial decision of your life.

Panmure Gordon has been advising companies like yours since 1876 and has helped sell or float hundreds of companies. We focus on only the highest quality advice and our name alongside the name of your business is seen as a stamp of approval and that you mean business.

To learn more about selling your business contact Karri Vuori
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M&A and Corporate Advisory since 1876

Getty Images

Golden year for M&A with more to come

Mergers and acquisitions have this year hit record levels, following the Great Recession, and 2016 looks set to continue the upward trend

◆ **OVERVIEW**

● **DEIRDRE HIPWELL**

There may only be a few weeks left of 2015, but already the total value of global merger and acquisition activity has hit a record high of $4.2 trillion.

Such has been the deal bonanza in a host of sectors from pharmaceuticals and telecoms to oil and gas that this year has already surpassed the all-time annual record for global deal-making set in 2007, according to Thomson Reuters.

The global information group added that since records began in 1980, only six transactions had surpassed the $100-billion mark and two of these were announced this year alone.

David Lomer, J.P.Morgan's co-head of mergers and acquisitions (M&A) for Europe, the Middle East and Africa (EMEA), says the data reflected the growing improvement in sentiment and confidence across many boardrooms worldwide.

"What we are seeing this year is an age of strategic transformation and volumes are at the highest levels ever globally. In 2007 an average of about one deal of $10 billion or more would get announced each week, but this year it is an average of about 1.5 a week. This [M&A surge] is about industrial change and strategic transformation, and it is happening at an unparalleled pace."

With low interest rate environments and cheap financing persisting in many economies, many believe this surge in M&A deal-making is only going to increase next year.

EY, the global consultancy, says its research showed that 42 per cent of all UK executives were "aggressively focusing on growth" and planned to acquire assets in the next 12 months, driven by a need to accelerate earnings.

However, history and hindsight has long shown that M&A can sometimes be foolhardy pursuits damaging once-healthy companies and leading to the destruction of shareholder value.

There are a litany of deals from the last corporate boom-and-bust cycle that bears can point to as examples of M&A transactions gone wrong, the most egregious being the Royal Bank of Scotland's disastrous takeover of ABN Amro. This hubris-fuelled, highly leveraged deal was one of the biggest corporate takeovers in history, but as the financial crisis took hold left RBS needing an eleventh-hour bailout by the British taxpayer.

It is not only the financial services sector which has played host to doomed M&A deals. In every sector there are examples of M&A transactions where companies have overpaid, failed to properly integrate or taken on so much debt it crippled operational flexibility.

As the M&A industry rounds off a golden year, the questions that need to be asked now are whether this is a vintage time to invest or should companies and their banking advisers be treading with caution?

> The changing global economy post the financial crisis means that previously held assumptions on where best to place your bets now need to be challenged

Luigi Rizzo, head of EMEA M&A at the Bank of America Merrill Lynch, says often when deals went wrong it was because market conditions changed rapidly and companies that have "M&A as part of their DNA" tended to fare better.

"Whereas one cannot generalise, companies that have over the years repeatedly done M&A tend to outperform in the longer. However, for companies where M&A may be a one-off and there is no operational history or culture of M&A, there is a greater likelihood of failure," he says.

But whether a seasoned hand or an M&A debutant, Michel Driessen, EY's transaction advisory services market leader for the UK and Ireland, believes any transaction should start with a company identifying the right target and market.

He says: "Businesses should review the geographic balance of their portfolios and consider how their M&A strategies should be adjusted to reflect a changing global economy so they can meet their growth and value aspirations. The changing global economy post the financial crisis means that previously held assumptions on where best to place your bets now need to be challenged."

Mr Rizzo says, in addition to finding the right partner, management teams must have a clear strategy for running an enlarged company. "You have to have a definite, clear team in charge. Uncertainty as to who is in charge can be a recipe for disaster," he says.

Most bankers will attest that there are a growing number of parties from corporate trade buyers to private equity companies running the rule over potential targets for next year, when a sharp pick-up in deals is expected.

And this time round the M&A cycle is different to the last private equity-boom driven boom.

Now, there are more large cross-continent mergers with American and Asian companies propelling much of the M&A activity. Private equity groups, sitting on billions of funds raised during the past five years, are also willing and able to do deals.

J.P.Morgan's Mr Lomer says the pipeline of deals for 2016 is "markedly up year-on-year", but stresses that whatever the bid environment, companies should never underestimate the importance of discipline, particularly when it comes to valuations.

"The dynamic that can play out in times of high M&A activity are races towards end-games in industries where companies sense the strategic need to secure a pivotal asset. That's an environment that can see takeover premia stretched," he says.

"The true north for M&A has to be what is right for the customer? How do you use your company and merge it with another to offer your customer something fundamentally better than you could on a standalone basis?"

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RACONTEUR

Publishing Manager
James Wilkinson

Production Editor
Benjamin Chiou

Managing Editor
Peter Archer

Head of Production
Natalia Rosek

Digital and Social Manager
Rebecca McCormick

Design
Samuele Motta
Grant Chapman
Kellie Jerrard

CONTRIBUTORS

RODRIGO AMARAL
Freelance writer, based in Madrid, he specialises in the international economy, emerging markets and insurance.

NIC FILDES
Technology and communications editor at *The Times*, he was formerly with *The Independent* and Dow Jones Newswires.

DEIRDRE HIPWELL
Mergers and acquisitions correspondent at *The Times*, she was formerly an assistant editor at United Business Media.

CHARLES ORTON-JONES
Award-winning journalist, he was editor-at-large of *LondonlovesBusiness.com* and editor of *EuroBusiness*.

NICK REEVE
Assistant European editor at *Chief Investment Officer*, he was with *Investment Adviser*, and has worked at *Pensions Management* and *Pensions Week*.

Mega-deals awash with cash

The global mergers and acquisitions market is buoyant in a sea of cheap cash, pushing prices ever higher

GLOBAL DEALS

RODRIGO AMARAL

In terms of mergers and acquisitions, 2015 has been a time for thinking big. Enormous deals have taken place in several sectors of the global economy, encompassing different markets and demanding complicated transactions where several billions of dollars-worth of cash or stocks have changed hands. It is safe to say this is the year of the mega-deal.

Examples simply do not stop hitting the news headlines. In late-November, US pharma Pfizer announced the acquisition of Irish rival Allergan for $160 billion – the biggest ever M&A transaction in the pharmaceutical industry. Before that, the drinks sector was shaken by the purchase of SABMiller by AB InBev for a solid $101 billion.

> Several reasons may be driving the current upward market trend and one of them is the sheer abundance of money available to companies

In the media world, America's Charter Communication acquired Time Warner for a tad over $79 billion and in IT computer makers Dell forked out $67 billion for EMC, a provider of hardware storage services. Even the battered oil and gas segment has seen big movements with Royal Dutch Shell offering $79.3 billion to nab the BG Group.

The list could go on and on. According to Dealogic, from January to November, the number of deals worth $10 billion or more reached 56 around the world, which is double the amount in the same period last year. The frenzy has been such that the global M&A market is in the course of breaking records previously set in times when there appeared to be no possible limits to the exuberance of financial markets.

The total value of deals posted in the first ten months of the year surpassed $4 trillion, Dealogic says. That is more than in the same period of 2007, the best year ever for global M&A. The preference is for big targets, considering smaller deals have been much less common in recent months.

"Taken in isolation, the mega-deals that have been taking place would lead us to believe we are going through buoyant M&A times," says Stuart McKeen, the global and UK head of corporate finance at PwC, the consultancy firm. "But the volume numbers tell a different story." He estimates the total number of transactions of all kinds has been around 20 per cent lower in 2015 than the previous year.

1. Pfizer chief executive Ian Read (left) and Allergan chief executive Brent Saunders in November when the companies announced a $160-billion merger to create the world's largest drugmaker - the biggest M&A deal of 2015 so far **2.** BG Group drilling ship in Tanzania; the group is undergoing a $79.3-billion takeover by oil and gas sector peer Royal Dutch Shell **3.** AB InBev and SABMiller, the worlds two largest brewers, have agreed to combine in a deal worth $101 billion

So companies look more eager than ever to spend huge amounts of money in the purchase of a rival in order to expand their business. This could appear to be a doubtful disposition, as the track record of M&A transactions is far from stellar. A survey by Deloitte with companies that completed M&A deals in 2014 found almost 90 per cent considered the purchase failed to generate the expected return on investment. The number is even higher among private equity investors of whom 96 per cent said returns achieved fell short of their targets.

Several reasons may be driving the current upward market trend, however, and one of them is the sheer abundance of money available to companies. With interest rates at rock-bottom levels throughout the developed world, it has been cheaper than ever for companies to raise money and buy a rival. As a result of all the cost cutting and optimisation implemented since the start of the global financial crisis, companies have also stashed large amounts of cash in recent years and are now under pressure from shareholders to make the money work.

With many economic sectors growing at a sluggish pace, buying a healthy rival – and consequently paying premium values for the honour – may look an attractive idea for many a chief executive who has the full pockets required to take such plans to the very end. It is estimated the corporate cash pile reaches some $3.4 trillion, most of it held by non-financial firms, according to Sriram Prakash, head of global M&A insights at Deloitte. In addition to cash, companies listed in the United States and other countries have benefited from sharp increases in their share prices, which have enhanced their capability to add a stock element to their offers.

"Liquidity is driving the market, but it is bumping prices up too," says Alberto Fumo, head of UK private equity at A.T. Kearney's M&A practice. "Hopefully an interest rate hike by the US Federal Reserve will lead to better screening of opportunities, with companies focusing on the selection of the right asset at the right price."

10 TOP TARGETED COUNTRIES FOR M&A IN 2015*

COUNTRY (TARGET)		CHANGE ON 2014 FULL YEAR
US	$1.09trn	+12%
UK	$323.8bn	+138%
China	$284.2bn	+43%
Irish Republic	$164.3bn	+322%
Netherlands	$99.7bn	+103%
France	$78.4bn	+32%
Australia	$65.9bn	+5%
Germany	$62.7bn	+6%
Italy	$62.0bn	+32%
Hong Kong	$61.9bn	+294%

*Announced deals as of November 30

Source: Zephyr 2015

CASE STUDY: IRAN


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As investors look for new frontiers in the current M&A spree, a number of territories have emerged as potential future hot spots. Some are dynamic economies that have been faring well of late, such as the Philippines, Malaysia and Indonesia. Others, such as India, are economic powerhouses where the M&A market has been muted in recent years. However, one of the most intriguing is Iran, a nation that has long been kept out of reach of Western companies for geopolitical reasons, but could stage a comeback into the economic mainstream.

Iran is certainly not an ordinary emerging market. It boasts a population of 80 million people with a good standard of education, and some of the largest oil and gas reserves in the world. For a long time it has been the target of economic sanctions by the United States and Europe because of suspicions about its nuclear power plan. In July, the country reached an agreement with America and five other states that has opened the way for the lifting of sanctions.

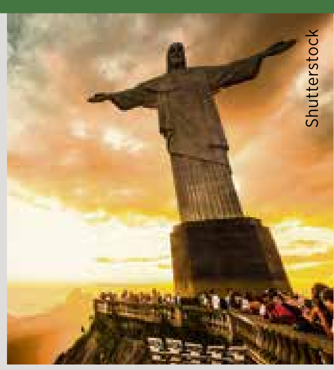
As a result, Western companies have reportedly begun to position themselves to invest in the country, with sectors such as oil and gas being singled out as possible targets for M&A deals.

According to Zephyr, a deals database, $674 million-worth of deals were announced in the third quarter of the year, compared with zero deals in the same period last year.

But experts have warned that the legal framework in Iran is not yet ideal for M&A transactions and there is a significant risk that compliance issues could emerge in assets purchased in the country. "Even once the European sanctions are lifted, there will still be compliance risks associated with doing business with Iran," says Matthew Townsend, a corporate partner at Allen & Overy. "Iranian companies may not have anti-bribery, anti-fraud and anti-laundering procedures that meet Western standards.

"It could be very difficult to trace the connections between businesses and the Iranian government. Buyers will want to be comfortable that target companies are clean from corruption and bribery."

CASE STUDY: BRAZIL


Shutterstock

M&A bargain hunters may have found in Brazil a source of attractive deals at the same time as Latin America's largest economy is going through dramatic economic and political times.

Estimates by PwC indicate that the number of acquisitions made by foreign investors in the country is around 5 per cent up on the levels of 2014. This year companies from abroad have accounted for more than half of all M&A transactions there.

The numbers may not seem very impressive, especially as the total volume of deals is down almost 15 per cent from last year. But it indicates that some brave companies may be taking advantage of Brazil's tough times to position themselves in a market with a 200-million population that not long ago was flying high.

Brazil is in recession right now and the country is headed for its first two-year period of negative GDP growth since the 1930s. Inflation and unemployment are on the rise, and the country's commodities exports have been badly hit by the slowdown of the Chinese economy. As a result, the Brazilian currency has this year depreciated more than 40 per cent against the US dollar. To make matters worse, a deeply unpopular president and a chaotic congress prevent the government from making the fiscal adjustments and structural reforms needed for the country to climb out of the pit.

For investors with hard currency on their balance sheets, however, the crisis has created opportunities. Currency devaluation has reduced the comparative price of Brazilian assets and many companies have been knocked to their knees after having contracted large amounts of past dollar debts.

Abilio Diniz, one of Brazil's wealthiest entrepreneurs, told investors in New York that Brazilian assets are currently "on sale". Some have already acted on the advice. In November, Coty, the French-American cosmetics group, paid almost $1 billion for a smaller rival that belonged to Hypermarcas, an industrial holding. Some days later, America's Omnicon Media Group splashed out $270 million to purchase Grupo ABC, an advertising firm. Analysts believe these transactions will mark the beginning of a recovery of M&A in Brazil, which should pick up steam in 2016.

Mr Fumo stresses that before jumping into a big deal, buyers must thoroughly analyse the rationale behind the transaction. Acquisitions can certainly create synergies, which has been the argument employed by Pfizer to buy Allergan, or to enhance the capacity and knowhow of a company in segments where they are not very strong yet, the driver of many M&A deals in the insurance industry this year.

Acquisitions can also aim at the addition of key, scarce talent in industries such as high technology or intellectual property rights, which have helped to instigate deals in IT, biotechnology and other sectors.

Cross-border deals are very much in vogue, as companies strive to get into promising markets to compensate for stagnant domestic ones. This is the reason why Japanese health and life insurers have made a splash among their American peers, boosting the average values of global M&A transactions in the process.

"Companies are feeling very comfortable doing deals around the world," says Michael DeFranco, global head of M&A at Baker & McKenzie. Money is changing hands all around the planet, with Europe emerging as a target for global players. "Companies that survived the European crises tend to be good assets for potential buyers and multiples are lower than in the US," adds Mr Fumo.

However, the United States still accounts for the lion's share of the market. According to Dealogic, 57 per cent of M&A revenue generated this year has come from America. China is another strong player with deals totalling almost half a trillion dollars in the first ten months of 2015, which is 69 per cent up on the previous year.

> **We have seen many transactions that are run like auctions, with the participation of both private equity funds and strategic investors**

A significant change in the market over the past couple of years is a switch in direction of M&A money as companies from China and other emerging economies employ their large reserves to make purchases in the rich world. "In 2014, the cross-border M&A investments from emerging markets into the G7 exceeded M&A investments that went the other way around," says Mr Prakash, stressing the trend is likely to hold at the end of the current year.

The market has also been lifted by the ever-heavier involvement of private equity investors, who are also flush with cash and looking for opportunities both to make acquisitions and to sell their current holdings in a high market. Deloitte estimates they are involved in some capacity in more than one out of every four deals completed in 2015.

It is a perception shared by the market and which is giving a further boost to deal values. "We have seen many transactions that are run like auctions, with the participation of both private equity funds and strategic investors," says Mr DeFranco.

All things considered, it is likely that the enthusiasm for big-ticket transactions will continue to be a factor in 2016. But the same may not be the case in the lower strata of the M&A universe, PwC's Mr McKeen points out. "Markets remain very fragile at the moment, so it is still difficult to get the right quality in bread-and-butter transactions," he says. "There is a flight to quality in today's M&A market."

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There's some tension but 'money will sweat'

Prospects and targets in 2016 for private equity are likely to be shaped by the huge demand from institutional investors experienced during recent years

◆ PRIVATE EQUITY

● NICK REEVE

Massive inflows of private equity have resulted in a record amount of unused capital – and there is no immediate sign that enough opportunities for investment are going to arise.

As Bain Capital partner Graham Elton says: "It's very much a seller's market" and this is likely to have consequences for mergers and acquisitions (M&A).

As private equity managers receive more cash from pension funds and endowments, they are coming under pressure from those same investors to put the cash to work. As a result, sellers – whether company boards or other private equity owners – find they can demand higher prices.

Meanwhile, in the public arena, a multi-year bull market has pushed prices to record levels. The S&P 500 Index recorded its highest-ever closing price on May 21, driven in part by quantitative easing on both sides of the Atlantic. This means initial public offerings (IPOs) have also been an attractive exit strategy for several years.

IPOs pose their own problems by generating more cash that sellers will then be under pressure to recycle as soon as possible.

However, there are some signals of weakness. Duff & Phelps head of corporate finance Robert Bartell notes that some debt deals linked to private equity have been pulled recently in order for money to be reallocated elsewhere – something "we haven't seen for four years", he says.

In November, *Bloomberg* reported that Bank of America and Morgan Stanley had abandoned a debt package backing a proposed $5.5-billion (£3.6-billion) transaction for Carlyle Group. With the US Federal Reserve seeming poised to raise interest rates for the first time since 2006, borrowing to buy is likely to become less attractive, even if the base rate only rises marginally.

According to Howard Marks, co-founder of specialist credit investment firm Oaktree Capital: "When people are afraid of being left behind and afraid of not getting a deal – fear of missing out – then the market is not a strict disciplinarian. When they balance that with fear of losing money, then the market is much healthier."

Elsewhere, EY's private equity IPO data show that $38.5 billion was raised in the first nine months of 2015 by private equity funds in 120 listings. This compares with 163 IPOs raising $95.8 billion during the same period in 2014.

IPOs may have declined, but selling to other private equity funds or to acquiring corporates has remained strong, with 625 companies sold through M&A with a total value of roughly $262 billion, roughly in line with last year. In Mr Bartell's view, doing business with corporates is "still a home run for sellers".

"Private equity buyers are becoming a little more cautious and discerning," he adds, "but public company acquirers face anaemic organic growth and are looking to strategic acquisitions to drive revenue synergies, product expansion and cost reductions."

Bain Capital's Mr Elton argues that the tension between high prices and excess cash has to unwind soon. "The rate at which things are being sold could slow – that would effectively be a built-in correction," he says. "There has to be some form of price correction to enable more money to be put to work."

Mr Elton speculates that some private equity firms may delay exits from companies purchased during the pre-crisis market highs of 2006 and 2007 to give more time to recoup the money spent. The effects could materialise from 2016 as 2006-vintage funds reach the end of their typical decade-long investment cycle.

"There is enough uncertainty that private equity funds are pretty cautious about what they do," Mr Bartell says. "The view is that while there could be a correction in 2016, it's unlikely to be a fall of 30 to 40 per cent. When you talk to wealth managers, they say there is definitely downside risk, but it would be described as modest, maybe a 5 to 10 per cent correction."

This still leaves the problem of excess capital. In a recent report from PitchBook into the European middle-market – private equity deals worth between €25 million and €1 billion (£17.6 million and £703 million) – the authors noted a surge in the value of deals involving consumer-facing companies to 34.6 per cent of the industry's total deal value at the end of the third quarter.

> Public company acquirers are looking to strategic acquisitions to drive revenue synergies, product expansion and cost reductions

The data company said patchy consumer numbers from different regions could pose headwinds for the sector in 2016, with optimism in European powerhouse Germany falling. However, UK consumers are reporting record confidence, PitchBook says, meaning this sector could still be attractive in the coming months. In addition, the number of disruptive technology companies emerging in the lower end of the private equity market is likely to drive interest in the IT sector.

The rise of co-investment could also drive interest in long-term, stable consumer companies. Large pension funds in particular are putting pressure on private equity groups to invest alongside them directly in companies, rather than pay higher charges and performance fees for pooled vehicles.

The giant Canada Public Pension Investment Board, a noted expert in private equity transactions, recently completed a $4.7-billion deal for an American pet supplies chain, co-investing with CVC Capital Partners.

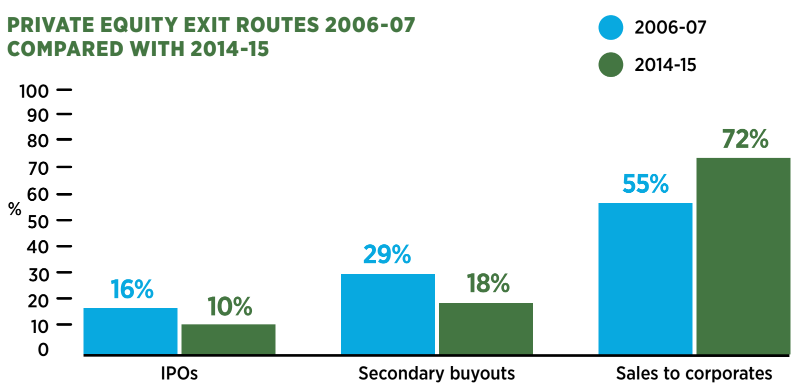
As the biggest names in private equity seek to put their capital to work, they are venturing into the middle market, Duff & Phelps' Mr Bartell points out, diversifying away from their traditional stomping grounds of the $1 billion-plus transactions.

"A lot of the firms wouldn't normally be interested in [this area], but they are now," he says, referring to sub-$200 million deals in particular. "They are willing to get their hands dirty. As long as the companies are growing, the bigger groups are buying in the middle market."

Such companies are developing specialist teams for sector-specific funds, PitchBook says, and "can afford to pay heightened prices for up-and-coming brands, confident in their ability to tune up operations even if there is further accentuation of the economic downturn".

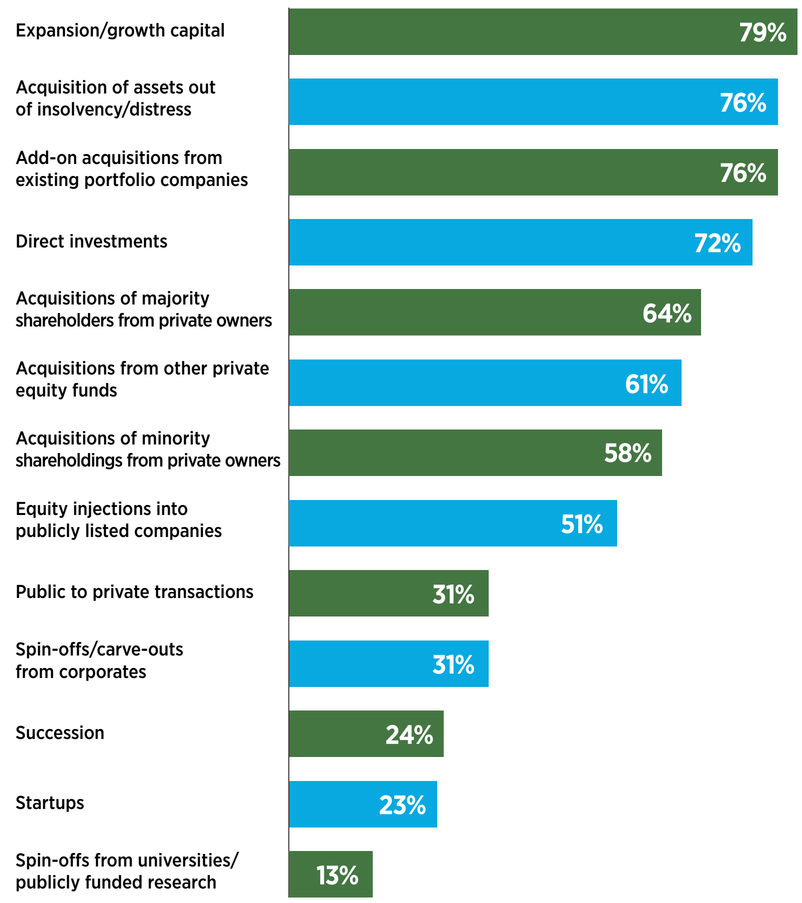
There remains a tension in private equity, but as long as there are cash-rich buyers, they will find opportunities to make that money sweat.

PRIVATE EQUITY EXIT ROUTES 2006-07 COMPARED WITH 2014-15



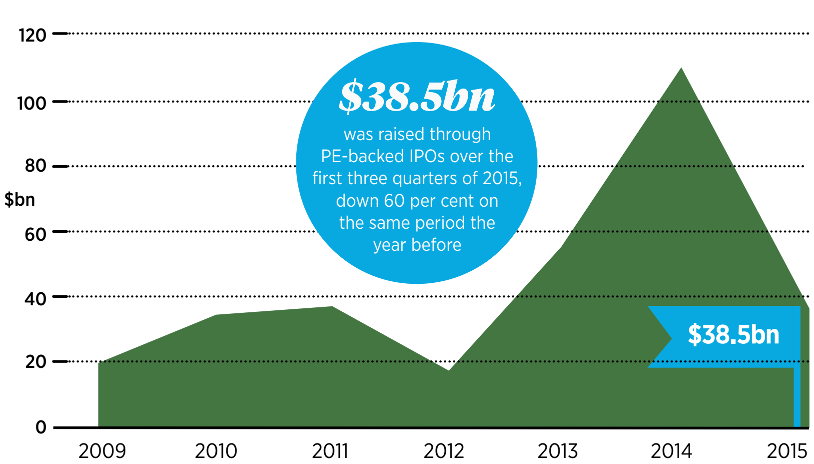
Source: EY 2015

EXPECTED SOURCES OF NEW DEAL OPPORTUNITIES FOR INTERNATIONAL PRIVATE EQUITY FUNDS



Source: PwC 2015

VALUE OF GLOBAL PRIVATE EQUITY-BACKED INITIAL PUBLIC OFFERINGS



Source: EY 2015

TOP 5 PRIVATE EQUITY EXITS TO STRATEGIC BUYERS IN 2014

$25.1bn KKR sold Alliance Boots to Walgreen Company

$13.4bn Blackstone, Goldman Sachs, KKR and TPG Capital sold Biomet to Zimmer

$10bn CCMP, Providence Equity, Quadrangle, Thomas H. Lee Partners sold Grupo Corporativo Ono to Vodafone

$6.8bn Apollo sold Athlon Energy to Encana

$6.3bn Madison Dearborn sold Nuveen Investments to TIAA-CREF

Source: Dealogic/Preqin 2015

COMMERCIAL FEATURE

FUTURE OF PRIVATE EQUITY

*Private equity is enjoying huge success at the moment, but investors need to look at the latest trends within this strong growth story, says **Mark O'Hare**, chief executive of Preqin, the alternative assets industry's leading source of data and intelligence*

Mark O'Hare
Chief executive

preqin

Over the last few years private equity has grown enormously as an asset class and played an increasingly important role in M&A activity. Our research shows the sector has record assets under management – nearly $4 trillion – and that its "dry powder," in other words the amount that it has available to invest, is also growing.

As the leading global provider of data and intelligence for all those involved in private equity and M&A, we've identified a number of key trends in the sector, some of which are currently underway, while others will unfold over the coming years.

One fundamentally important trend shows how, over the last few years, money has been flowing out of rather than into private equity. Until around 2012, private equity firms were calling up more cash from their investors to invest in companies than they were returning. Since 2013, though, the amount of capital distributed to investors has surpassed capital calls and has reached record levels, as fund managers have used favourable market conditions to exit many portfolio investments. This is, of course, good news for investors who are now seeing good returns on their investments.

Certainly private equity has been a good bet for investors. According to our research, taking a base line of 100 in 2000, the return with the S&P 500 Index would, for instance, be just over 200 by 2015. Across all private equity strategies, this return would be just over 300, but with buyout funds it rises to 400. Unsurprisingly, when we asked investors in June to reveal how satisfied they were with their investments, 35 per cent reported that private equity has "exceeded their expectations"; meanwhile only 13 per cent felt it has "fallen short of expectations".

Now, with $1.3 trillion of dry powder in their pockets, private equity firms are looking for the right investment opportunities and this is good news for businesses of all sizes looking for capital. So private equity is serving both companies and investors well and will, we believe, continue to grow. But within this growth story, there are some interesting new trends emerging which investors, companies and those working within the M&A space should be aware of.

Venture capital (VC) funds have performed very well and the number of deals being supported has increased significantly. Startup businesses such as Uber and Airbnb have attracted huge amounts of capital and media coverage. In June Airbnb raised $1.5 billion of funding led by new and returning investors.

Less prominent but equally interesting, as it typifies the current vibrant market, is a deal involving Poundworld, the West Yorkshire-headquartered chain of discount retail stores which sells electrical products, groceries, toiletries and other consumer goods. In March private equity firm TPG bid to acquire a majority stake in Poundworld for £120 million. By the time the deal was completed in May, the company was valued at £150 million. Preqin has logged 12,217 buyout and VC investments worldwide during 2015, and private equity funds still have a lot of dry powder ready for similar investments.

A second important trend has been prompted by the current relatively low-growth economic environment. For investors this means that finding growing businesses is increasingly challenging, but also increasingly interesting. Today private equity firms are much less interested in complex financial engineering and using leverage, and much more interested in finding growing companies to invest in.

Almost all the private equity firms we're following are putting considerably more effort into growth strategies. This means finding small and medium-sized businesses that they can invest in whose management they can work with closely to develop the business in the longer term. Great news for owners and managers of growing firms.

As I've mentioned, this is a sellers' market at a macro level, but following a period of strong fundraising, we calculate private equity now has around $1.3 trillion to invest.

> "Following a period of strong fundraising, we calculate private equity now has around $1.3 trillion to invest"

We've also noticed that increasingly, when private equity does invest, it's not just providing capital, it's providing smart capital. In other words, it's supporting management in the growth phase, providing advisory and consulting services.

Here's another interesting trend. As everyone knows, growing businesses need funding of different types at different times. Equity is important, but companies also find themselves needing to borrow. Banks are much less likely to provide loans for businesses than they used to be.

So, we're now seeing private equity and, more generally, private capital firms stepping in to provide these loans, which are funded by investors. This new activity is already significant and is on the rise, providing new opportunities for investors and growing-fast businesses. It also means that for M&A, those looking to make acquisitions can now access both equity and loans from private equity firms.

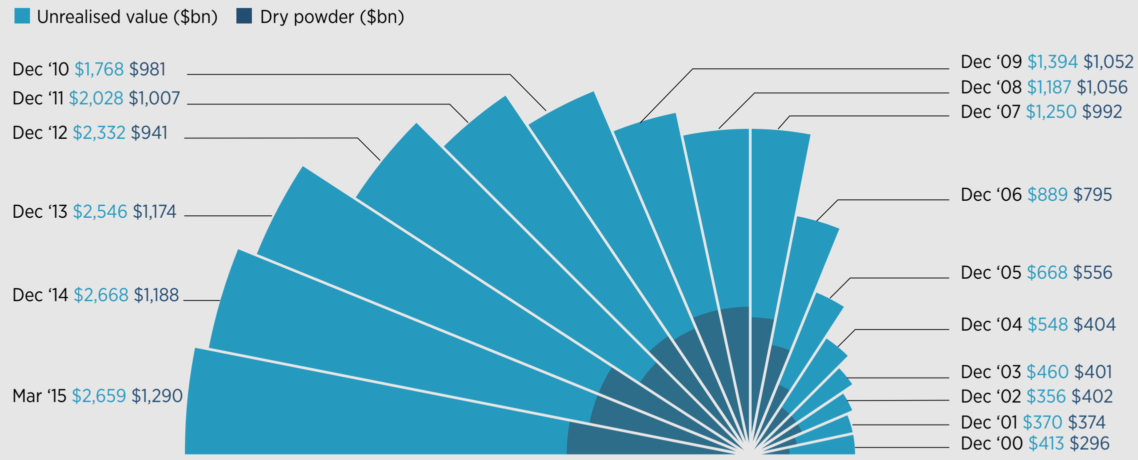
These are exciting times as private equity offers investors, businesses and those involved in M&A a variety of new options. However, as we know from talking to our clients around the world, whatever the type of deal, in order to be successful from the point of view of all three players – investors, private equity firms and businesses – it must be based on accurate, comprehensive and timely information.

www.preqin.com/times

ABOUT PREQIN

Preqin is the alternative assets industry's leading source of data and intelligence. Its products and services are utilised by more than 38,000 professionals located in over 94 countries for a range of activities including investor relations, fundraising, marketing and market research. Founded in 2003, it has offices in New York, London, Singapore, San Francisco and Hong Kong, and is an independent business owned by its directors and employees.

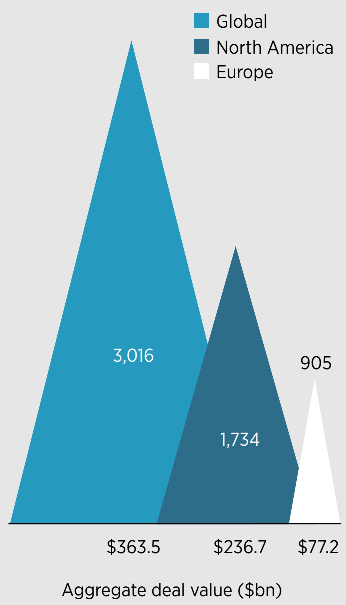
All private equity assets under management, 2000-2015



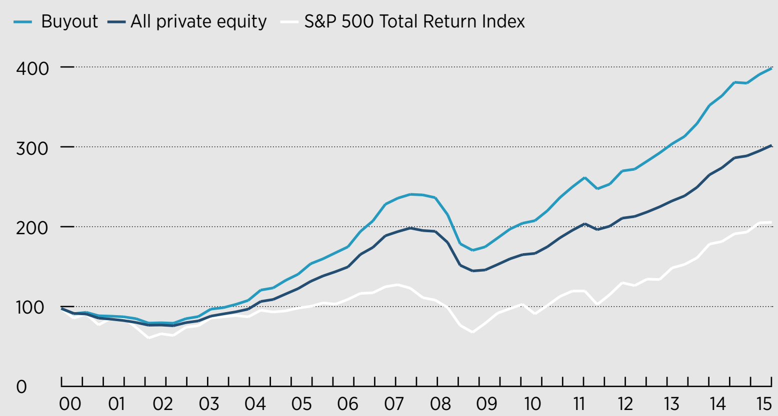
Number of private equity firms globally making PE investments

8,658

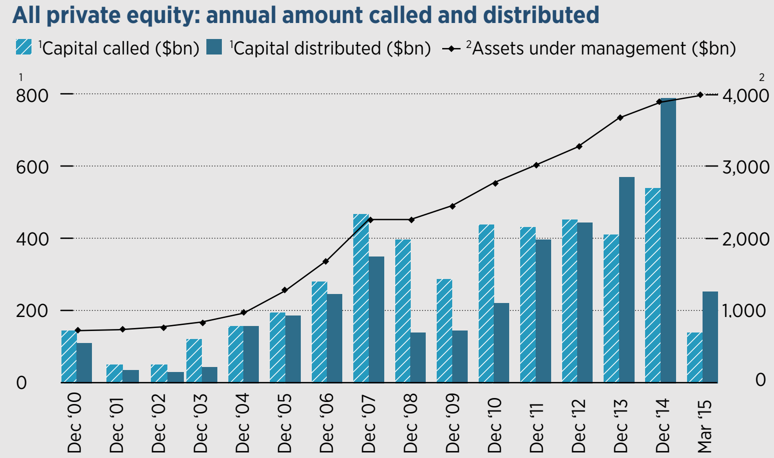
Number of PE-backed buyout deals so far in 2015



Preqin Private Equity Quarterly Index



All private equity: annual amount called and distributed



35% of investors reported their private equity portfolio has exceeded their expectations

Airbnb raised $1.5bn of venture capital financing in June 2015

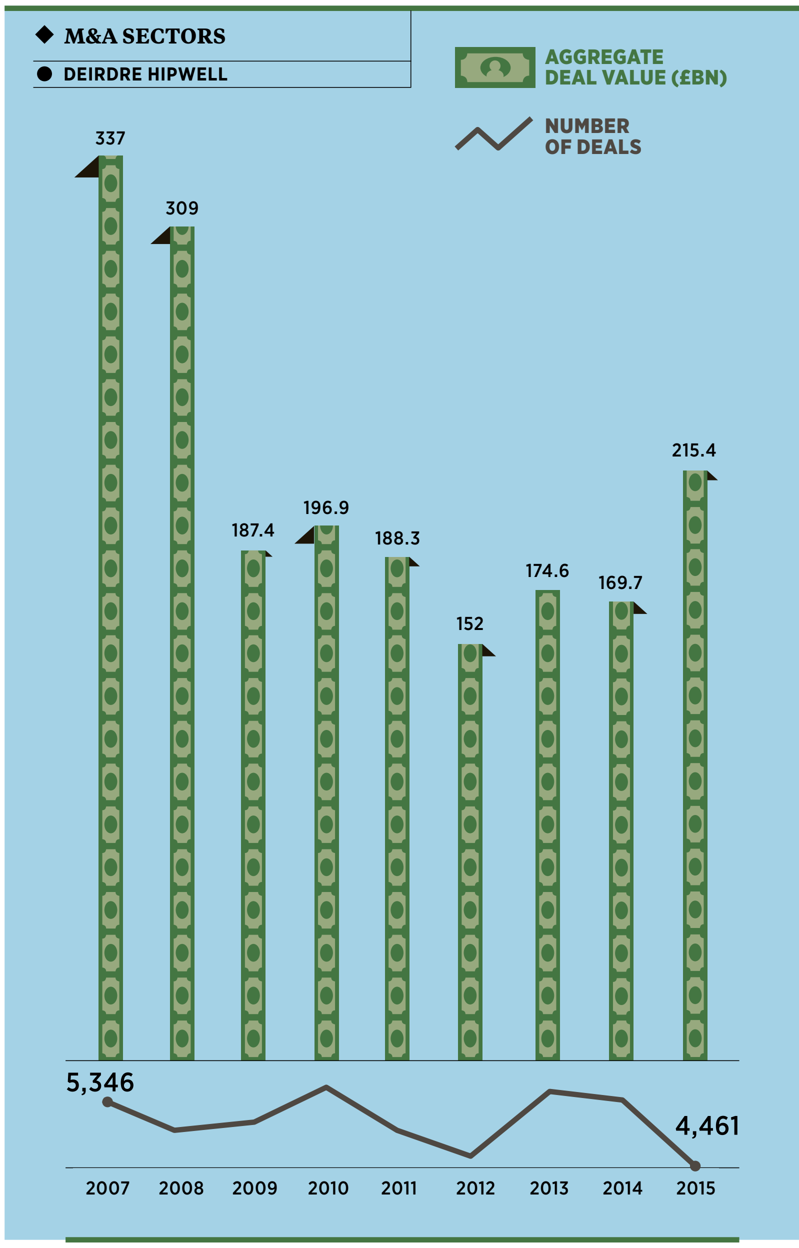
TPG buyout of Poundworld was worth £150m

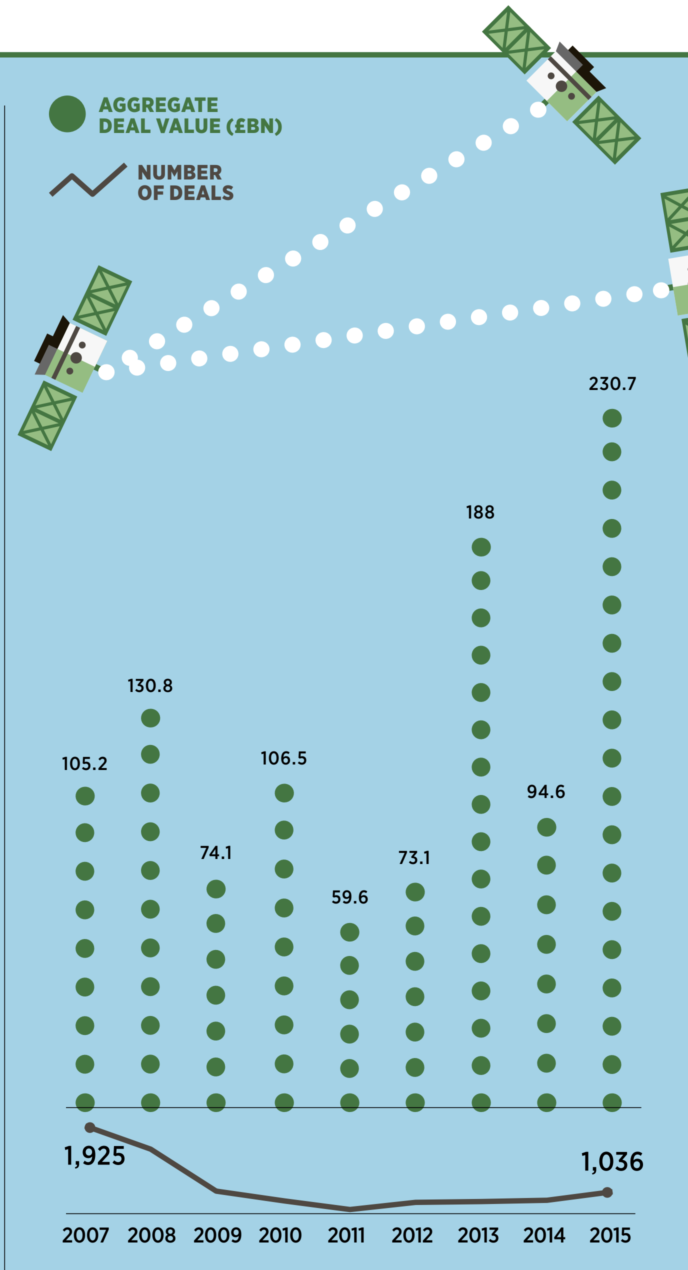
This is where the big-money

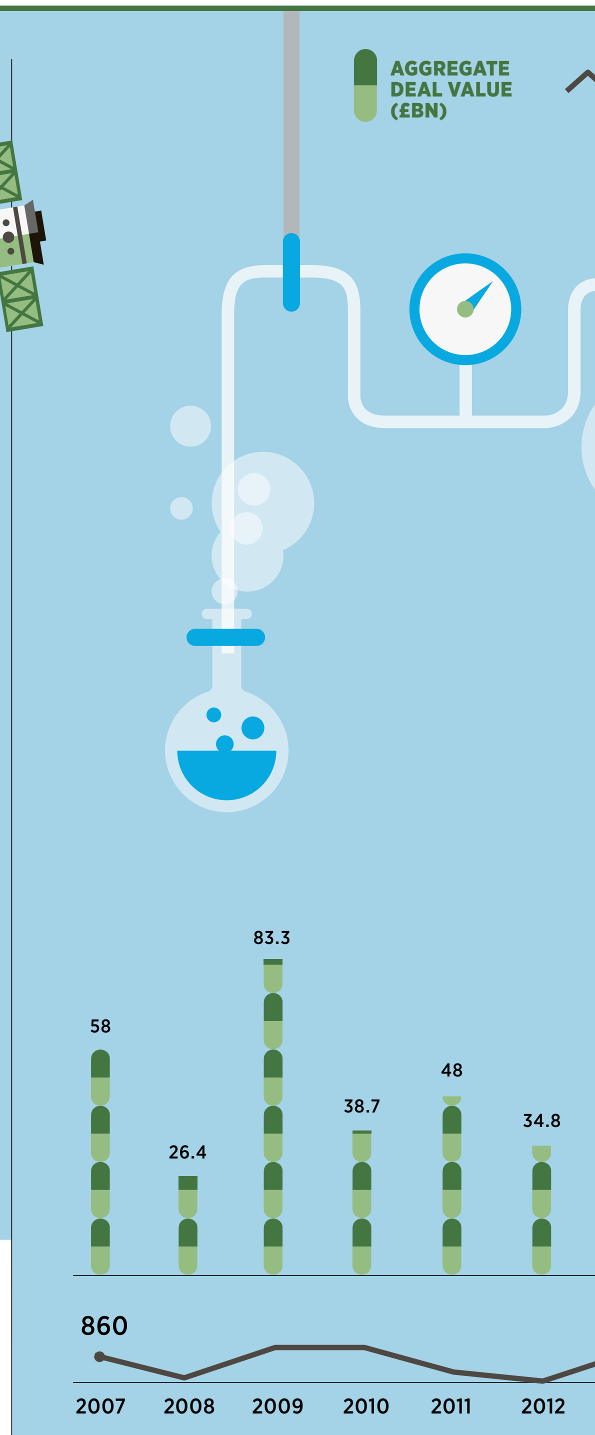
Mergers and acquisitions are breaking records worldwide, but five sectors - financial services, telecoms, pharmaceuticals, comput

◆ M&A SECTORS

● DEIRDRE HIPWELL







FINANCIAL SERVICES except insurance and pension funding

Consolidation is a buzzword that peppers most conversations about the future growth and long-term strategy of the global financial services sector.

A volatile global macro-economic situation and an evermore complex regulatory environment in most jurisdictions means many companies, from wealth management groups to asset managers and non-bank lenders, are constantly searching for scale and growth.

Yet, despite this structural shift, the aggregate value of financial services mergers and acquisitions (M&A) only reached £215 billion this year, according to Zephyr. This is some way off the £337-billion peak in 2007, meaning there could be more deals to come.

According to Michael Frieser, Europe, Middle East and Africa (EMEA) head of financial institutions, corporate and investment banking at Bank of America Merrill Lynch, there have been very few strategic expansion-led deals this year.

"Most of the transactions have been about banks... disposing of non-strategic parts of their business," he says. "Nobody in Europe has large-scale M&A at the core of their strategic agenda at the moment. Banks are by and large focusing on the regulatory impact, the fintech challenge, building their capital base and in some instances dropping market positions that are unsustainable."

Another senior US investment banker says many financial services groups, particularly in Europe, are keeping their powder dry and waiting for a more predictable regulatory environment and says if there is "enough support to do transactions" then there could be "a last round of consolidation in Europe in the next couple of years".

David Lomer, J.P. Morgan's co-head of M&A for Europe, the Middle East and Africa says that in this sector as in others, M&A is like a "coiled spring" adding: "You can go through periods of relative inactivity, but where there is underlying strategic logic the tension will invariably be released."

TELECOMS

Size has always mattered in the word of telecoms, a sector which has long been driven by transformational M&A activity. More than $60 billion of acquisitions were carried out in the first half of this year alone, with Zephyr recording a total value of £231 billion of transactions in 2015. This is already double the total achieved in 2007 when £105 billion-worth of deals were sealed.

Corporate deal-making in this sector, in Europe and further afield, is driven by both the pressure to create economies of scale and the convergence of services as consumers increasingly demand interplay between their fixed line and mobile devices.

Many telecoms companies are also finding that joining forces makes sense at a time when everyone in the industry faces highly capital-intensive demands for investment in technology and building networks. Investment spending is often essential when research and development means new technology is constantly disrupting the market.

According to a senior industry executive, telecoms companies in Europe have only just started to build 4G, but are already having to discuss plans for 5G. "Size matters, otherwise you cannot make these huge investments," he says.

More consolidation is expected, particularly in Europe, but as this is a sector where the risk of harming consumers through ill-advised M&A is high, regulators are keeping a keen eye on any transactions. Regulators are particularly anxious to avoid a situation where strategic M&A activity could cause prices to rise for consumers.

PHARMACEUTICALS

There is no other sector that has captured the headlines for mega-deal M&A as much as pharmaceuticals this year. From the United States to Europe and Asia, the makers of drugs and compounds have been scouring the globe for deals in a ceaseless hunt for the next blockbuster medicine.

It is an "arms race" driven by pharmaceutical companies' growing need for scale, new markets, efficiency and bumper pipelines of new drugs.

Data from Zephyr shows the value of M&A transactions carried out in the pharmaceutical product and preparation sector jumped from £58 billion in 2007 to £239 billion in 2015. This reflects a sharp rise of more than 400 per cent and showcases the evolution taking place in the sector.

However, bankers point out that while there has been a marked an increase in high-value mega-deals, the volume of pharmaceutical transactions has remained relatively flat. A point backed up by Zephyr

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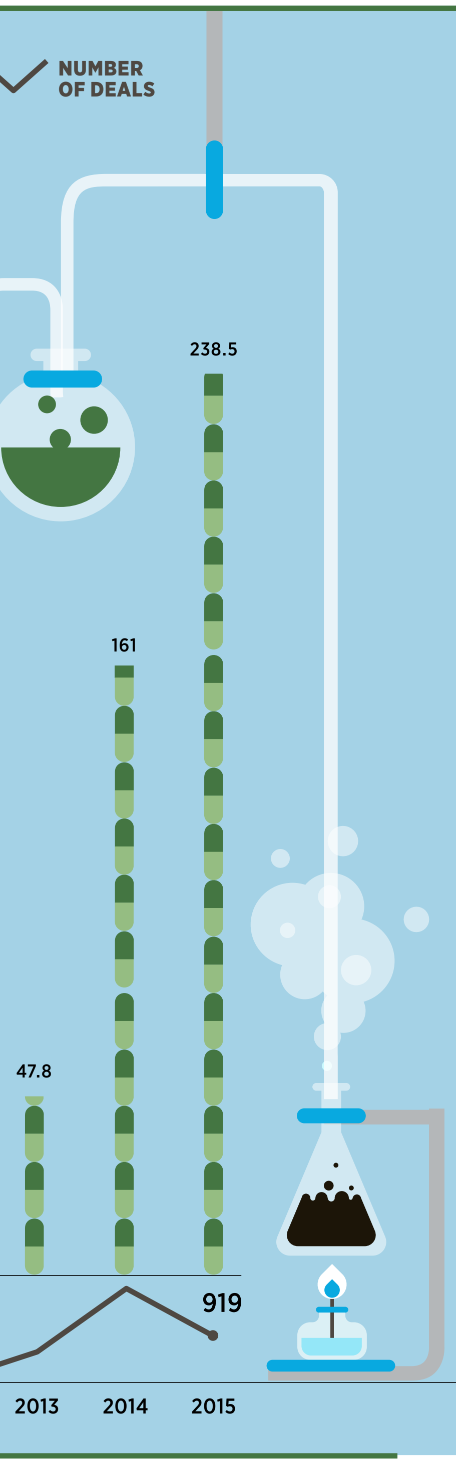
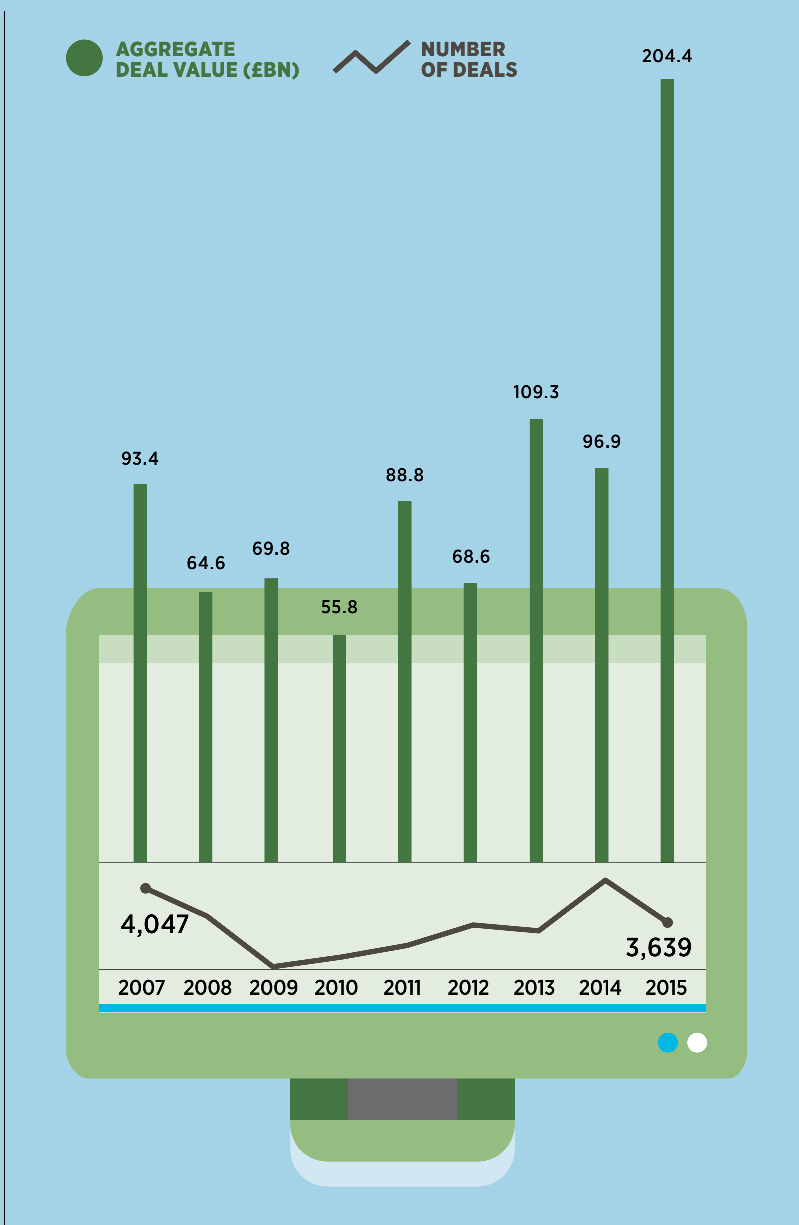
y deals are being sealed...

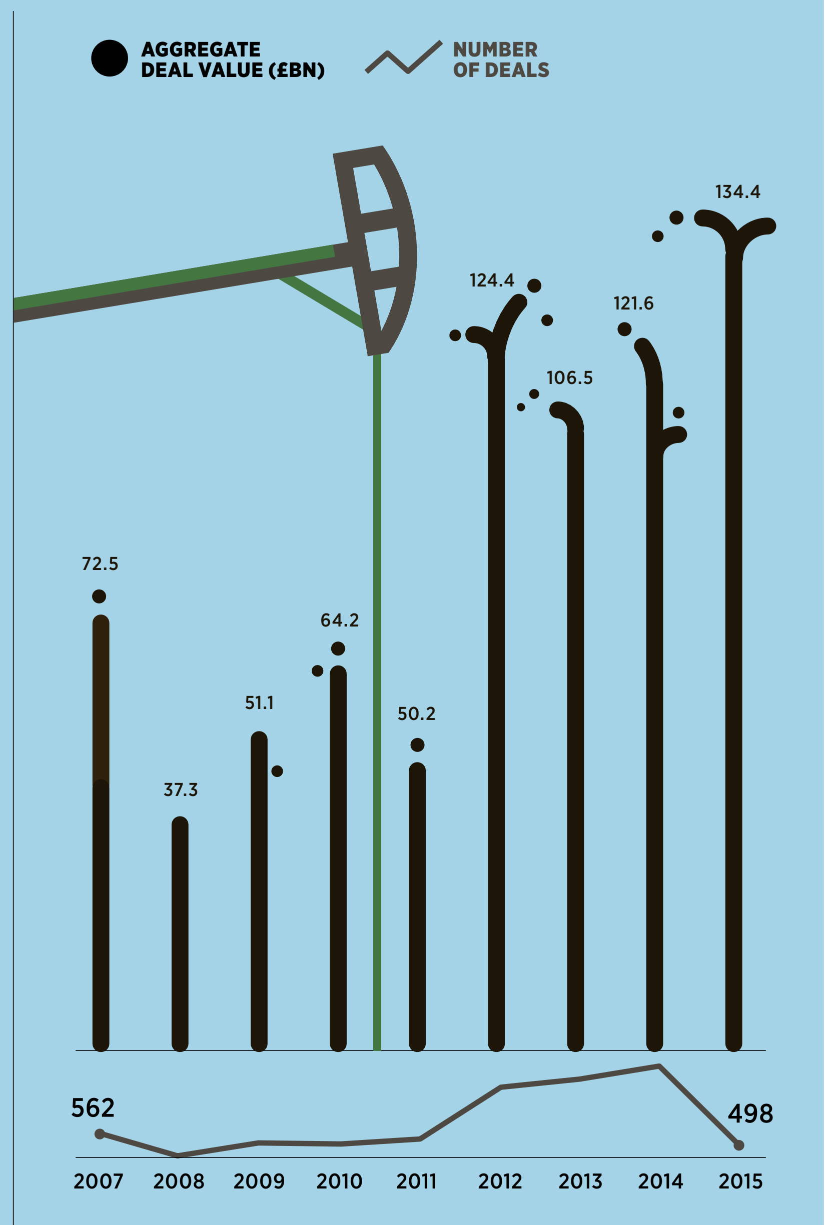
er manufacturing, and oil and gas - are blazing a trail

DEAL YEARLY VALUE (ANNOUNCED DATE) - 2015 FIGURES AS OF NOVEMBER 30

Source: Zephyr/Bureau van Dijk 2015







e data shows that between 2007 and 2015 the ne of pharma M&A deals increased from 860 to a rise of less than 7 per cent.

ny of these mega-deals have been driven by version rules, which allow for significant tax gs and explain why Pfizer, the giant Ameri- rug company, struck a $160-billion deal last th to merge with Allergan.

ording to Thomson Reuters, if the combi- n of Pfizer and Allergan completes, it will only become the largest pharmaceutical in history, but will rank as the second larg- &A transaction of all time.

stav Ando, a research director for IHS Life nces, says the deal represents a "sensational formation of the global pharmaceutical in- ry", adding that the sheer scale of the trans- n would be likely to trigger more deals in ector next year.

COMPUTER MANUFACTURING

including electronics and optical products

The world of computer manufacturing is big, incorporating everything from the creation of PCs and other hardware to semiconductor chips and electronic components.

Companies that can provide complex technological expertise, particularly semiconductor equipment, have been particularly hot commodities at a time when development costs are rising.

This is why Avago Technologies of Singapore swooped on rival chipmaker Broadcom in a multi-billion-dollar deal, which has drawn regulatory scrutiny, but will be the largest merger of chipmakers in history.

Economies of scale as well as the need to diversify, another driving force in this sector, is also why Intel, the world's biggest chipmaker and a Silicon Valley stalwart made a $16.7-billion swoop for Altera.

Intel makes PC chips and sells most of those used in computer servers, while Altera provides the chips used in mobile devices and cars.

Woodside Capital Partners, a global independent investment bank, says electronic equipment, instrument and components are currently dominating global M&A activity in this sector, with mergers involving semiconductor manufacturers not far behind.

There are likely to be more deals to come. As Steve Mollenkopf, chief executive of Qualcomm, which is another major provider of connectivity chips for smartphones, says: "I think there's going to be a tremendous amount of growth in computing and resources dedicated to supporting the cloud. We look at that as an opportunity for a company like ours."

OIL AND GAS

There is perhaps no other sector which is currently facing such difficult market conditions as oil and gas. This is an industry which has been thrown into turmoil by plunging oil prices, which are still below a once-unthinkable $50 a barrel benchmark. Goldman Sachs has even warned that that the oil price could sink to $20 a barrel.

Such volatility is placing severe cost pressures on the industry from the explorers to the large oil majors, and is leading to structural change and strategic deal-making.

Data from Zephyr shows the value of M&A in the oil and gas sector this year hit £134 billion, compared with £73 billion in 2007. This year has even produced what Michael Hulme, who runs a Carmignac Gestion commodities fund, dubbed the "big cahuna" of deals, Shell's proposed £43-billion takeover of BG Group.

The fund manager says, although he had a natural scepticism about whether mega-mergers of oil companies created significant synergies, M&A activity was only likely to increase. It could take time, however. "There is still too much variance [in prices], but if oil prices stabilise at $50 to $60, it is much more likely that more deals will be struck," he says.

James Peterkin, EMEA co-head of oil and gas at Barclays, agrees and says, while much of the activity this year has been focused on asset disposals, large transformational deals in 2016 could hinge on valuations. "A lot of this year has been about adjusting to the shock of the oil prices on the screen," he says. "We think it could stay at around $50 a barrel next year before starting to pick up thereafter. If oil prices stay down for a longer period, then people may start looking at wider options for M&A."

M&A SHOULD BE AN ENABLER OF STRATEGY – NOT A SUBSTITUTE

M&A should be the means to an end, not an end in itself, says Mostyn Goodwin, a Partner with OC&C Strategy Consultants.

Admittedly, where it's an end in itself, M&A can have attractive short-term financial benefits realised through financial engineering. Some investors use funds trapped offshore; others use tax losses in an acquired company, as Liberty Global did when they acquired Virgin Media. Others look for financial benefits from EPS accretion and multiple arbitrage. However, these deals are often tactical and do not always deliver long-term sustainable advantage.

Financial engineering aside, there are some other 'ends' for M&A which are neither financially rational nor strategic:

- Management teams can get credit from the City for doing deals, not necessarily the right deals. Returning capital to shareholders is often seen as a last resort by management teams short on ideas.
- Some management teams simply enjoy the thrill of the 'chase'.
- Sadly, some M&A is also used to disguise internal problems. This accusation is often levelled at internet businesses with strong balance sheets that acquire to cover up slow growth in their core. This strategy can very publicly collapse when the runway of deals comes to an end.

M&A must follow strategy

Though not guaranteed, the chances of generating long-term sustainable value are greatly increased when M&A is the means to an end, executing a clearly defined strategy (or set of strategies). Examples of strategic M&A include:

- Investing in growth sectors, for example News Corp investing in businesses such as Vice or Unruly.
- Consolidating to take out cost or capacity (e.g. LocalWorld bringing together UK regional newspapers) or to improve market position and pricing (e.g. Zoopla's merger of property portals).
- Counteracting institutional sluggishness by investing in human capital - businesses such as Google or WPP are well known for this (recent WPP deals including AKQA and Essence Digital bring this to life). In our upcoming book "Digital Stractics", the author Chris Outram notes "acquisitions in the digital world are often used to recruit talented teams (acqui-hires) or to get access to emerging technologies and then to scale them up".
- Investing to shore up a supply chain, for example the recent spate of US broadcasters buying TV producers (e.g. Discovery Channel acquiring All3media).
- Acquiring smaller IP rich assets to plug gaps in the portfolio or NPD pipeline (as is common in pharma).

In our experience, companies wishing to generate real long-term value should make M&A an enabler of strategy, not a pseudo-strategy in itself.

OC&C is a leading global strategy consulting firm that brings clear thinking to the most complex issues facing today's management teams.

OC&C Strategy Consultants www.occstrategy.com

Making sure there are no nasty surprises

Pre-deal checks should not only examine company accounts, but also programmes to comply with national and international regulation

◆ DUE DILIGENCE AND COMPLIANCE

● RODRIGO AMARAL

As companies look for growth all around the world, they have increasingly focused on up-and-coming markets such as China, India, Mexico and Indonesia. This trend is unlikely to change.

Consultants Oxford Economics expect that by 2018 the value of emerging markets-related M&A transactions will be more than 50 per cent higher than in 2015. But the opportunities created by such deals also generate challenges, especially for buyers based in developed markets.

While they have to adapt themselves to evermore stringent regulation at home, governance standards in their new acquisitions may not be up to scratch. That is why the due diligence and compliance work done before the parties close a deal has become vital in M&A transactions.

The risks that companies face when they own firms in countries where corporate governance is fragile have been brought into sharp focus by the effect a human tragedy and environmental disaster in Brazil has had on a mining giant based on the other side of the world.

In November, two industrial waste dams managed by Samarco, an ore producer, collapsed in the town of Mariana, killing at least a dozen people and causing widespread ecological damage. In the following days, investors rushed to sell the shares of BHP Billiton, an Australian miner that co-owns the firm along with Vale, a Brazilian mining titan whose name has also been dragged into the toxic mud.

In order to avoid this kind of grief from companies they acquire, buyers need to carry out a thorough examination of their risk management and compliance procedures even before the deal is done. "Companies need to learn what kind of liabilities they are taking on," says Michael DeFranco, the global head of M&A at Baker & McKenzie.

The aim is to avoid nasty surprises that they are liable to pay environmental fines, labour compensation agreements, late tax bills and other charges derived from mistakes or illegal acts perpetrated by the previous owners.

On a deeper level, buyers are taking a closer look at the programmes in place to deal with bribery, corruption, human rights abuses, employment of child labour by their supply chains and many other governance issues not directly linked to the commercial side of the operation. Companies based in the United States, for example, will always have in mind that they work under Foreign Corrupt Practices Act regulations, which enable US enforcers to pursue, under certain conditions, alleged breaches of American law anywhere in the world. UK companies at home and abroad, and overseas businesses operating in the UK, face similar requirements and stringent penalties under the 2010 Bribery Act.

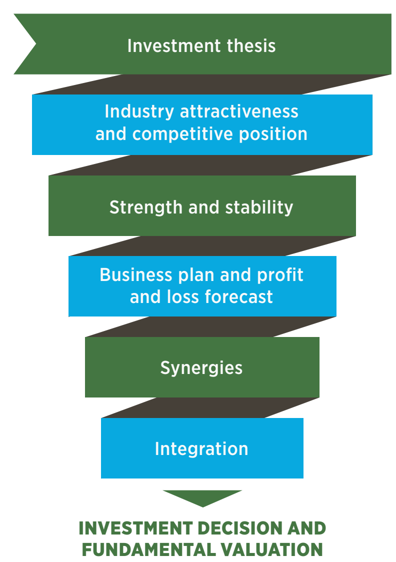
But the preoccupation is justified not only from a legal point of view, as a strong element of reputational risk also comes into play. "Buyers have in their minds episodes such as the Volkswagen emissions scandal," says Matthew Townsend, a corporate partner at law firm Allen & Overy. "In most markets, emerging or developed, there is a very clear focus from buyers on the compliance programmes of their targets."

This is not an easy task by any stretch of the imagination. Especially in emerging economies, checking a compliance programme is a laborious and time-consuming task that can face many hurdles. "Compliance and due diligence is often constrained by the timetable of the deal, the costs involved and a lack of robust data from the seller," Mr Townsend points out. But companies are ever keener to take the necessary steps in order to avoid problems. "If the compliance issue is big enough, it will make or break a deal," he says.

The assessment of compliance programmes may look, for example, at characteristics that could be seen as competitive

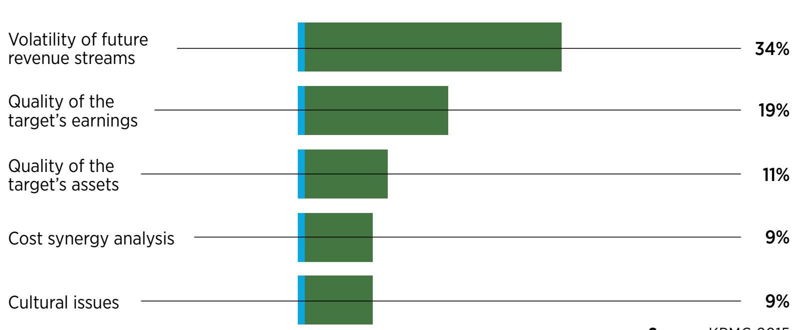
KEY STEPS TO CONSIDER IN M&A DUE DILIGENCE...

SHOULD YOU CLOSE THE DEAL AND, IF YES, FOR WHAT PRICE?



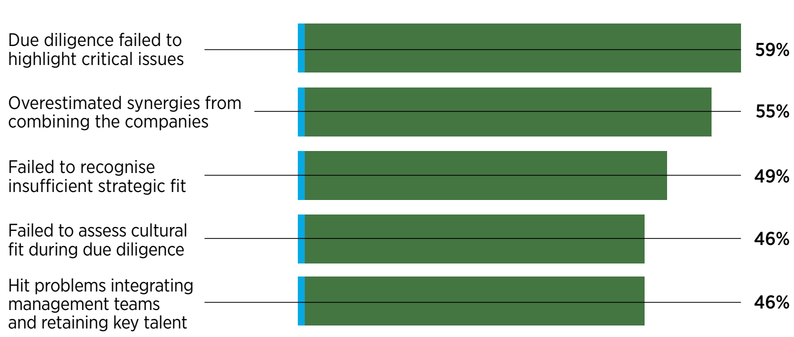
Source: Bain & Company

COMPANIES' TOP DUE DILIGENCE CONCERNS IN M&A



Source: KPMG 2015

TOP ROOT CAUSES OF DEAL DISAPPOINTMENTS OR DIFFICULTIES

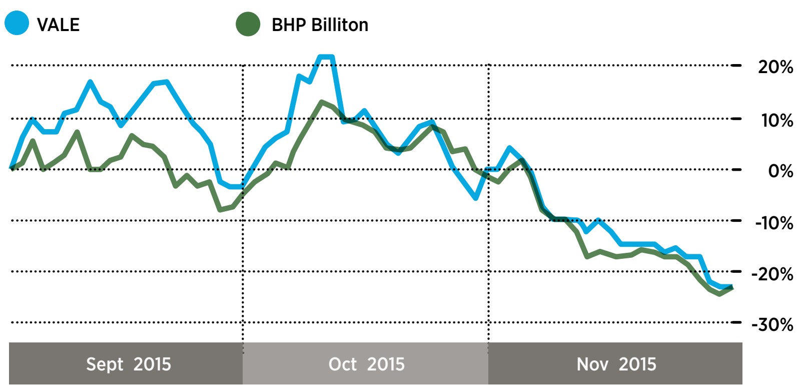


Source: Bain & Company

Two dams of an iron mine belonging to Brazilian miner Samarco burst on November 5, smothering the village of Bento Rodrigues in toxic mud and killing at least 13 people

PERCENTAGE MOVEMENT IN BHP BILLITON AND VALE STOCK OVER THE PAST THREE MONTHS

Share prices of UK-listed BHP Billiton and Brazil-listed Vale, which co-own Samarco, took a dive in November after the environmental disaster. The Brazilian government is reportedly seeking $5.2 billion in damages from the mining companies for environmental recovery and compensation



advantages in some markets, but appear toxic for buyers based abroad. "If it is clear that a target has close links with the government, generally that will be a red flag," says Mr Townsend. "Financial investors, in particular, will be much more worried about that. Likewise, when a business has a large number of government-related contracts, it will trigger a close look at the interplay between the company and public officials."

That is why sellers, who really wish to close deals, must be prepared to answer all kinds of tricky questions and be fully informed about the compliance programmes their companies have in place. Not least because it's not only buyers who need to be convinced.

The banks that will provide funds required to complete the operation are finding themselves evermore exposed to third-party compliance breaches and, consequently, are developing a sharp eye for compliance risks. Mr Townsend says concern with such themes is higher than ever before and that compliance ranks among the top three most important issues in most M&A deals.

The pre-deal due diligence process implies assessing the exposure of the target company to anti-trust laws, data protection and privacy rules, litigation, intellectual property breaches, product liability, and so on. It also has a commercial aspect that can help in making sure the target company has the potential to deliver the business enhancements the buyer is looking for.

"In terms of commercial due diligence, there is much focus today on value creation plans," says Alberto Fumo, global head of M&A at A.T. Kearney. "The fact that a lot of private equity firms have been influencing the M&A world, both as acquirers and sellers, is fuelling this kind of approach."

At the same time, if the merger or acquisition is driven by potential synergies, the due diligence process can help participants to understand them in detail, as well as how they are going to be captured, even before the deal is completed.

> The aim is to avoid nasty surprises that they are liable to pay charges derived from mistakes or illegal acts perpetrated by the previous owners

Finally, it can also include an evaluation of the extent to which the company to be aggregated to the business risks been overwhelmed by an Uber-like rival that can change the perspectives of the market with a revolutionary business plan. "Clients are increasingly asking to analyse whether technological disruption can affect the sector where the target company operates," Mr Fumo points out.

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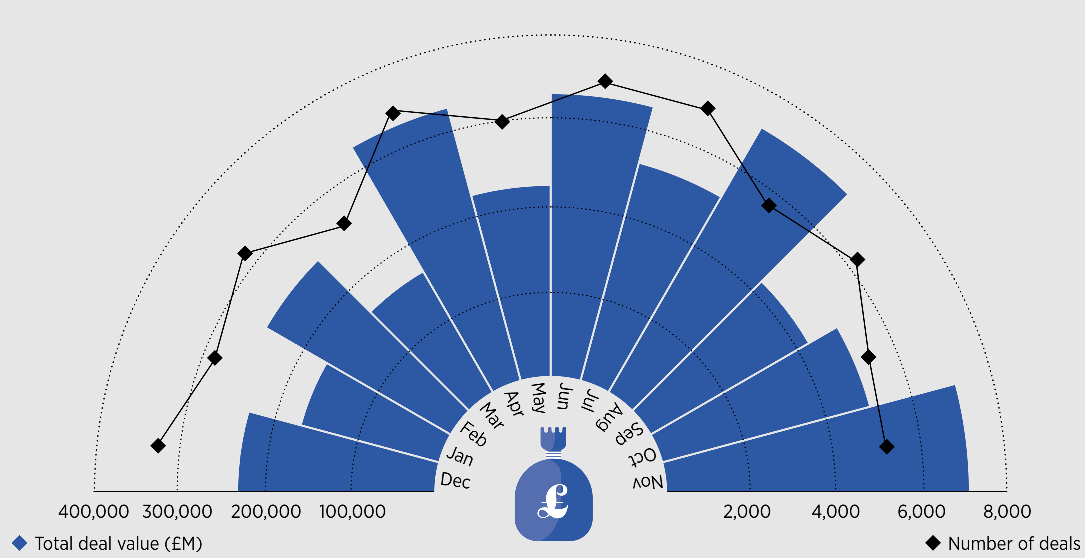
COMMERCIAL FEATURE

Global M&A in the last 12 months



PREDATOR OR PREY? UK IN WORLD OF M&A

As Bureau van Dijk prepares to launch a new Predator Index next year, in which inbound and outbound deal activity will be tracked, Lisa Wright, managing director, M&A products, examines the UK's place in the world of mergers and acquisitions, and reviews recent deals and trends across the globe

Lisa Wright
Managing director, M&A products

BUREAU VAN DIJK

The UK has always played an important role in global deal-making, both with the quality and expertise of its banking and advisory professionals, and with UK-based companies continuing to be involved in some of the world's largest deals.

This year has been no exception. So far in 2015, UK companies have found themselves the subject of two out of the three largest deals announced year-to-date. Anheuser-Busch InBev's £87-billion acquisition of SABMiller is the largest announced deal by value globally, with Royal Dutch Shell's £47-billion acquisition of BG Group in third place.

When in the role of "predatory acquirer", UK companies have had a quieter year than 2014 in looking for cross-border acquisitions. Two sizable deals this year are the £7.6-billion acquisition of ITR Concession Company by IFM Global Infrastructure, which completed in May, and the recently announced £4.2-billion acquisition of Dyax Corporation by Shire.

Based on absolute numbers, UK companies consistently favour domestic deals, with 62 per cent of deals in 2015 involving a UK acquirer and target. Based on value, the figure drops slightly to 56 per cent, but UK domestic mega-deals (this year's BG & Shell deal excluded) have not really been seen since the global financial crisis.

UK companies typically look to the United States and Western Europe when on the hunt for targets, typifying cultural and language synergies that many corporations feel comfortable with.

Let's look at the global picture. December is typically busy for M&A professionals as they work to close deals before the end of the year. Already 2015 can be classed a remarkable year for global deal activity, with announced deal values standing at £2.8 trillion, 18 per cent higher than was recorded for the whole of 2007, previously known for its record level of transactions.

> Already 2015 can be classed a remarkable year for global deal activity, with announced deal values standing at £2.8 trillion

The economic climate for M&A deals has been good for at least three years now, with many corporates holding significant war chests of cash for acquisitions, private equity "dry powder" (uninvested available funds) at record high levels and low interest rates fuelling debt markets.

A major difference between 2015 and 2007 is the role private equity has played in driving the overall deal levels. Back in 2007, private equity deals accounted for 20 per cent of all deals by value compared with just over 13 per cent so far this year. Dig a little deeper than the headline figures and you really begin to see how it is large multinationals that have driven deal activity via their mega-deals.

This year has seen the announcement of 34 deals with a total value of £781 billion. This compares with a total of 18 deals totalling £352 billion in 2007. In 2007 private equity buyers were responsible for seven of those mega-deals and more than a third of the total deal value, compared with only three in 2015, representing 10 per cent of the total value.

So what does this mean for activity involving UK companies in 2016?

Advisers with whom I have chatted say their deal pipeline is healthy. Interest rates are still low, fuelling the availability of cheap debt. And private equity firms still have substantial funds available to them for investment. So theoretically the outlook for 2016 in terms of UK deal activity should be good. However, the increased instability around global security could easily affect the markets and rein in buyer confidence as we have seen before.

bvdinfo.com/corporatefinance
bvd@bvdinfo.com
@bureauvandijk

COMMERCIAL FEATURE

DATA ROOMS: ROOM FOR IMPROVEMENT

Data rooms play an essential role in successful M&A deals, but their performance leaves much to be desired, argues ***Mark Edge****, managing director of Brainloop UK, the secure enterprise information company*

brainloop

M&A has enjoyed explosive growth both in the UK and across the world over the last few years with deals valued at around $2.66 trillion for the first three quarters of this year, according to Thomson Reuters. Drivers include financial engineering and the desire to save on costs.

Data rooms play an important role by speeding up deal completion. Their use has increased rapidly over recent years and, according to findings published last year by market researchers Global Market Research, the worldwide market for virtual data room services is projected to reach $4.8 billion by 2018.

All well and good, but too few people challenge the way in which data rooms work in M&A. What if there is more to be squeezed out of these technologies that will benefit all interested parties? Has the data room sector rested on its laurels? Have the market leaders become lazy and complacent? More importantly, are customers truly being served?

Many of those customers looking at the sector over the last 15 years will recognise the following issues:

COSTS

Spiralling costs and irritation because of charging per page with all its small print and contract complexities. Customers are increasingly asking, “Why are we signing contracts per deal?” and they’re fed up with paying for deleted or inflated average-sized pages. Many are also finding it difficult to manage deal budgets and they feel as if they’re being held to ransom for post-merger integration costs.

CONTENT

Static content is another bugbear for many users of data rooms. It’s often necessary to create PDF versions of documents for security, but this is time consuming, with watermarking also presenting an additional burden. Post-transaction, during integration, if native documents are needed for collaboration and editing, this can require further sourcing, which involves more manual work and cost.

How many late night and weekend calls are made and received by frustrated bankers and other players in a deal who are unable to access the deal platform because of the way in which their corporate desktop is built, very probably due to technologies like Java or Active X getting in the way?

Meanwhile during this mobile-first age, when deals could also be done in the mobile sphere, too many data room suppliers are failing to respond to this demand from customers.

Those involved in deals often have concerns about security and not simply because of cyber crime. Very often vendors have access to deal data. Service level agreements might suggest they shouldn’t look at it, but is it really likely that 20-something sales guys and bankers aren’t looking at Premier League players’ information in data rooms during transfers?

> “Brainloop clients love the fact that the platform works first time, every time on any browser

New data privacy regulations due in 2017, with their provision for higher fines – up to 5 per cent of global turnover – as well as the evermore serious associated reputational damage of a data breach, are prompting many of those in the M&A industry to tighten their security protocols.

At Brainloop we’re challenging these accepted industry norms and all the disadvantages and unnecessary challenges they bring for customers. For example, players in the M&A space, who are concerned about getting the best value for money, appreciate the fact that unlike other providers that charge per page, Brainloop charges per gigabyte, making it easier for clients to control costs. Our cost structure is simpler and more transparent, while our straightforward contracts, which provide for multiple transactions, lead to faster and better return on investment.

DYNAMISM

Customers like the fact that our dynamic platform allows users to upload and edit documents in their native format, instead of the need for conversion, with PDF conversion done by the platform on the fly when needed. Users can also bulk upload and simply drag and drop. Optional watermarking is also simple and proving to be very popular.

EASE OF USE

Brainloop clients love the fact that the platform works first time, every time on any browser. One click and a document or spreadsheet is available immediately. What’s more, secure containerised applications for all the major mobile platforms make deal rooms available on the go, unleashing greater productivity.

WORKING NATIVELY

This integration into Windows and the world’s dominant business applications, such as MS Office, provides users with an easier, more seamless experience, and dramatically reduces training and education cycles. Post-deal, documents are already in their native formats in the data room and ready for collaboration.

SECURITY

Unlike others, we ensure that our clients’ data is shielded from operators and administrators – only deal participants ever see documents. Data is always hosted locally to overcome jurisdictional concerns. In fact, confidence about security at Brainloop is underlined by the fact that not only do clients include Allianz, KPMG, Deutsche Bundesbank and Deloitte, but one of the UK’s main financial regulatory authorities also uses its services.

Rights management is baked in to the platform control document privileges and increases visibility, while automatic watermarking can identify leaks and encourage more responsible behaviour, all of which allows us to lay claim to having the industry’s most rigorous security architecture. The platform is frequently pen-tested to keep us at the top of our game. No wonder more people are turning to Brainloop.

A new dawn breaks in the deal-making business with manageable costs, greater productivity and total peace of mind. Check out what Brainloop has to offer.

www.brainloop.com
+44 207 183 8285
@brainloop_en

Putting a price on business

By consensus there seems to be no exact science of business valuation, but there are strong pointers to follow

◆ **VALUATION**

● **CHARLES ORTON-JONES**

Apple Inc, the world's most valuable company with a market capitalisation of around $650 billion

Are we moving towards a science of valuations? Will we ever reach a point when there is an agreed, rational and mathematical method of determining how to put a £ sign on a business?

There are two indicators that we might be getting closer. The first is the rise of forensic valuations for some of the trickiest metrics. One of the hardest to put a price tag on is brand value. How much is the name and logo of say Lagavulin whisky worth, as distinct from the expertise, barrels, bottles and other bits?

The accounting techniques for valuing brands are set out by the International Organization for Standardization in the ISO 10668 standard. The ISO is considered robust enough to be mandated by HM Revenue & Customs, which is not a body known for dealing in shades of grey. Other tricky areas of valuation are getting the same rigorous treatment.

> Discrepancies highlight that what is supposed to be a hard currency of brand measurement is indeed a very relative value

Second, we have the rise of algorithmic valuation services, such as Bizdaq and BizEquity. Input the numbers, hit compute and out comes the company value.

BizEquity has run valuations for 204,500 business and harnesses data from almost 30 million companies worldwide.

The BizEquity formula sucks in between 11 and 56 data elements per valuation. An algorithm crunches the numbers. Five minutes later you've got a number. The process is reliable enough for 90 financial institutions to offer to clients as a white-label service.

So are we travelling towards the promised land? According to more than a dozen leading mergers and acquisitions (M&A) advisers, the answer is a unanimous no.

Andy Parker, partner at Cooper Parry Corporate Finance, puts it best: "Ultimately, valuation comes down to a negotiated deal between a willing buyer and willing seller.

"Arriving at that value differs by sector, by growth within that sector, with opportunity for the business. It differs where the quality of management varies between one company and its competitors. It can vary by geography, local competition, potential, innovation and many more factors."

A chat with a buyer shows how this works in practice. Robert Legge, chief executive Europe of facilities manager Servest Group, has made eight major acquisitions in the past four years. He explains: "The balance sheets, the accounts and the quantitative data in general tend to get the lion's share of our attention. However, any dictionary will tell you that 'value' cannot be confined to the realm of numbers and statistics."

Mr Legge points to his acquisition of energy efficiency consultancy Llewellyn Smith. "The numbers alone might not have highlighted the full potential," he recalls. "But the synergy was sensational. He could cross-sell to all his new clients. The skills he acquired meant he could pitch new services to his existing roster.

"The value here is fourfold. The acquisition has boosted revenue, staff morale, business prospects as well as our reputation in the sector," he says. No accountant could have put that into a spreadsheet.

There's another big reason to doubt there will ever be a perfect science of valuation. Namely we still don't have consensus on how to value some pretty basic components.

Take brand value, mentioned earlier. Flick through the valuation literature and it looks like science. ISO 10668 lists seven approved methods, such as the "price and volume premium method". For example, the drug Nurofen is pure ibuprofen, yet costs three times as much as generic ibuprofen. In this case it is pretty clear how much the brand contributes. Agencies such as Millward Brown, Brand Finance and Interbrand claim to offer reliable brand valuations using these standards.

Yet when you look at the valuations by differing agencies, there is astonishing variation. Kirsten Foster of marketing agency Landor observes: "The three most widely used are valuing the Apple brand at $246 billion, $170 billion or $128 billion.

"Depending on who you ask, Google is worth $120 billion, $173 billion or $76 billion. These are not marginal differences. These are differences of up to 100 per cent. These discrepancies highlight that what is supposed to be a hard currency of brand measurement is indeed a very relative value."

If components like this are fuzzy, then arriving at a final price for the company as a whole is going to be fraught with problems.

Company valuations are so volatile that even sticking to a valuation post-deal can be hard. Patrick Sarch, M&A partner at law firm Clifford Chance, says 68 per cent of transactions featuring a private equity firm now use so-called "locked box" structure.

"In these cases the company is valued based on a fixed price at a certain date and there is no post-completion adjustment," he says. "While generally regarded as seller-friendly, as the buyer takes economic risk on the business from the reference date, these mechanisms have the benefit of certainty and simplicity, which reduces advisory costs when compared to complex completion accounts."

Of course, M&A experts won't give up. They will strive to iron out the glitches. Simon Browning, partner at UHY Hacker Young, sees more M&A involving management due diligence, which may include an evaluation of the role of the owner.

"Are they fundamental to the business?" he asks. "Will their departure detrimentally impact the business and its value? Do they need to be tied in for a period after disposal?" Management due diligence is still a young discipline. The validity of psychometric tests, for example, is hotly disputed.

> When it comes to judgment, even the most technically correct valuation is dependent on what a potential buyer would pay for a business

Algorithmic models will grow in sophistication. Certainly, for mid-sized firms that don't want to pay for a full sale valuation, a service like BizEquity can offer a considered and benchmarked number for a tenth of the usual cost.

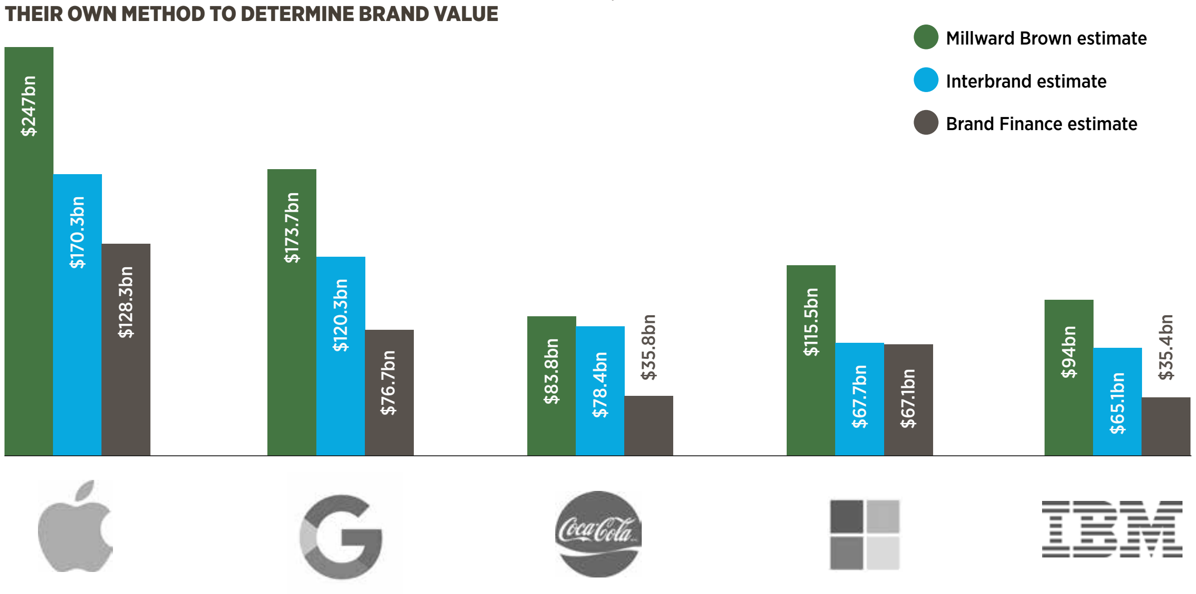
But can M&A be boiled down to numbers? Doug McPhee, global head of valuation services at KPMG, sums it up: "When it comes to judgment, even the most technically correct valuation is dependent on what a potential buyer would pay for a business in the current situation.

"Business-specific discounts and assessment of the potential buyer audience, and their appetite for the particular type of asset, are vital and cannot be easily captured through algorithmic models."

Or as the great statistician George Box put it: "All models are wrong, but some are useful." We may never get further than that.

CONTRASTING BRAND VALUATIONS OF THE WORLD'S LARGEST COMPANIES
COMPARING DIFFERENCES BETWEEN THREE BRAND AGENCIES, WHICH EACH HAVE THEIR OWN METHOD TO DETERMINE BRAND VALUE

Source: Interbrand/Brand Finance/Millward Brown 2015



OPINION COLUMN

Europe's powerhouse: UK middle market

The state of middle-market and private equity investment in the UK and Europe is on an upward swing, but stabilising

GARY A. LABRANCHE
President and chief executive
Association for Corporate Growth

"The UK's middle market is the most vibrant in Europe. Its mid-size companies are experiencing stronger revenue growth and job creation than their European counterparts. Notably, the UK middle market has overtaken Germany's highly regarded *Mittelstand* in terms of revenue, according to PitchBook Data, a US-based private equity and venture capital data provider.

To support the growth of mid-size companies, private equity firms remain active in the country, bolstering business growth. The value of buyouts has increased year over year as private equity firms inject even more capital into the economy. Between 2013 and 2014, the value of UK buyouts rose to €19.9 billion from €17.9 billion, according to a 2015 EY report.

UK mid-size companies remain strong, growing revenue at a rate of 3.9 per cent in 2014, outpacing the nation's GDP growth rate of 2.8 per cent, according to GE Capital. That growth has in turn positively impacted employment. Mid-size companies grew their workforce 2.5 per cent over the past 12 months, making the UK the European leader for job creation.

Private equity investors in the UK and across Europe have benefitted from middle-market companies in distress, owners approaching retirement and companies in need of operational improvement. These conditions have created attractive opportunities for returns and have resulted in a robust pipeline for deal flow across the continent. Meanwhile, a strong dollar has made such deals attractive to foreign investors, particularly those from the United States.

In addition to growing companies, private equity firms' investments benefit their limited partner investors. According to the *2014 Preqin Global Private Equity Review*, private equity outperforms all other asset classes for private and public pension investments over three, five and ten-year periods. Small and mid-size private equity funds, in particular, often yield stronger returns than their larger counterparts.

The UK has seen particularly strong deal flow relative to the rest of Europe; more than one-third of all European new buyouts have taken place in the UK, according to EY. More than 200 deals were completed in the UK in 2014, up from 193 in 2013, showing a rising, yet steady, rate of private equity activity.

Despite evidence of continued private equity activity, GE Capital's report, entitled *The UK Mid-Market 2015: Delivering on Growth*, showed that more than a quarter of firms have felt constrained by access to financing over the past three years, indicating there remains demand for outside investment. High valuations, however, may create a deterrent to private equity investors, as will a shrinking supply of good investment targets, according to PitchBook.

> "It remains to be seen how heightened terrorist concerns and other geopolitical issues will affect the growth trajectory of European middle-market companies and private equity investment activity

In addition to financing concerns, other factors that may contribute to a coming slowdown include challenges related to recruiting and retaining skilled workers, maintaining updated technology and adjusting to new regulations. Several organisations exist to help support European firms as they face these challenges. The European Capital Markets Union initiative, for one, is working to break down barriers to cross-border investments within the EU. Its goal is to increase the availability of financing for companies in need of growth capital.

It remains to be seen how heightened terrorist concerns and other geopolitical issues will affect the growth trajectory of European middle-market companies and private equity investment activity. For now, the UK middle market remains strong and private equity firms continue to be active across Europe."

Looking to exit with a pile of tech cash

Ambitious technology startups may be launched with the aim of being bought out by a larger rival, fuelling a tech acquisition spree

◆ **TECH DEALS**

● **NIC FILDES**

Acquisitions in the technology sector are as regular as clockwork; however, to judge from the financial pages, they are also fraught with danger. The technology industry has set new benchmarks for the size of acquisitions, but also for value destruction.

Nowhere is that more apparent than in Palo Alto where the bean counters at what was Hewlett-Packard have written off billions upon billions of dollars after the botched takeovers of Palm, EDS and, most spectacularly, Britain's Autonomy which has ended up in court.

Yet that hasn't derailed the conveyor belt of companies that launch themselves with one eye already on a sale to Salesforce, Adobe or Oracle. This has manifested itself in the spectacular valuations attributed to hundreds of businesses as private equity companies chase the new Uber, Instagram or Pinterest. There are herds of unicorns lined up in the stockyard waiting for a float or sale and the smart money says many may be disappointed.

For the buyers, the rationale is clear. Companies from Nokia to Microsoft have quickly found themselves on the wrong side of history when ignoring startups. It has not been lost on anyone that Facebook's bold plays for Instagram, WhatsApp and, unsuccessfully, Snapchat quickly looked very smart.

For all the stories about young entrepreneurs being stifled by big corporate culture, many large companies are trying to determine how best to both keep hold of and stimulate the talent that led them to make the acquisition in the first place.

Professor William Webb, head of consulting at affini and a former president of the Institution of Engineering and Technology, says that in the race to innovate, some large companies have abandoned research and development in favour of a frenetic acquisition strategy. He points to Cisco, which just paid $700 million for Britain's Acano, as a "past master" at this strategy. It is not, however a guarantee of success.

> Some large companies have abandoned research and development in favour of a frenetic acquisition strategy

"Assimilating a startup company is not an easy task," he says.

Eldar Tuvey knows from experience. He sold his business ScanSafe to Cisco in 2009 and went through that assimilation. "The sale is a time of great optimism, the end of one chapter and beginning of another. You usually expect you will be able to do so much more as part of a larger organisation with greater reach, resources, customers and partners.

"At some point you switch allegiance from the company being sold and worrying about your shareholders, employees and customers to becoming part of the new, larger whole and seeing the bigger picture," Mr Tuvey recalls.

Yet a sense of regret can kick in. "The disadvantage is that you sometimes suffer from 'seller's remorse'. You're sad to see it all go – and it can be hard having to let go of the ability to control every aspect of the direction of your company – with a team that has grown with you over the years," he says.

Another issue is that the biggest companies are effectively cherry-picking the best ideas and often letting them wither on the vine once the takeover is complete. Yet the same scenario can play out in the startup world.

Lorne Daniel, an analyst with investment bank FinnCap, says an exit strategy can be crucial to success. "I really don't have a problem with technology startups, indeed with any business, being launched with an exit in mind. I think it shows strong forward planning and leads to good discipline; hopefully a focus on what is going to be achieved and the timeline for doing it," he says.

"Very few businesses have the resources, product range, management or market opportunity for long-term sustainable organic growth so trade sale is a natural conclusion. The alternative is years of stagnation and loss of interest, and that is very unhealthy for investors, staff and customers."

The injection of talent into a lumbering, older business is a crucial element of the story of mergers and acquisitions (M&A). For every horror show, where the millionaire founders drive away leaving the predator business to slash and burn at their new toy, other companies nurture the talent they have acquired. Companies ranging from ARM to Vodafone have snapped up smaller business and provided a promising career path to the new staff who want a bigger challenge.

No technology sector is more comfortable with selling out than that in Israeli where thousands of deals are struck every year. Unlike in Britain, where newly minted millionaires buy a fast car and retire to the country, Israelis tend to move on quickly and set up new companies or fund others.

Guy Horowitz, who has been on both sides of the fence as an investor and working for startups, says talent, investment and exits form a "holy trinity" for a healthy startup scene. If there are sales, he argues, then investors won't stick around to support a new crop.

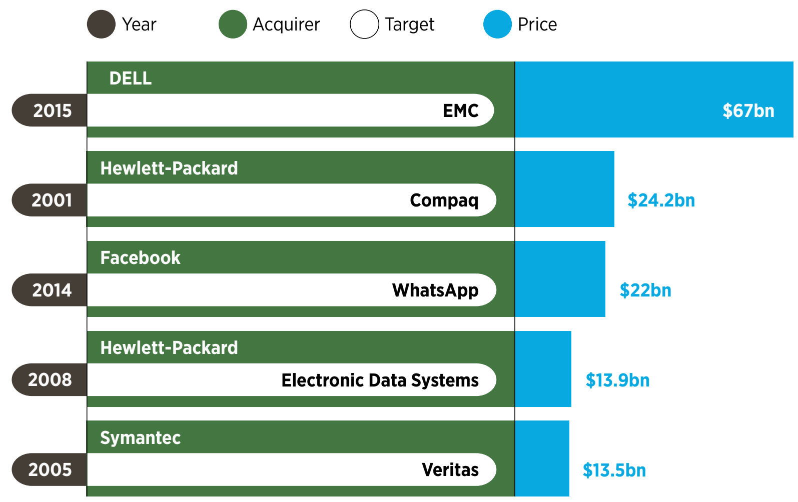
> Talent, investment and exits form a 'holy trinity' for a healthy startup scene

Mr Horowitz, general partner at Deutsche Telekom Capital Partners, says the sale of Israeli stars to Facebook, Apple and Google has the added benefit of bringing those companies to the country which can override concerns about the deal failing. M&A is the real engine behind global investment in new startups, he says.

"Statistics tell us most acquisitions are not successfully digested by the buyer. No one wants to sell to an entity that may spill their baby with the corporate bath water, but there is a sense of purpose behind every sale. In many cases the acquisition brings a much-needed entrepreneurial spirit to a sluggish giant or a short-term technological value that speeds up a much bigger activity. This instant impact shouldn't be underestimated," says Mr Horowitz.

Facebook spent $1 billion on photo-sharing social network Instagram in 2012 and purchased messaging app WhatsApp in 2014 for $22 billion

BIGGEST TECH ACQUISITIONS OF ALL TIME



WHY DOESN'T GOOGLE JUST BUY TWITTER?

Every six months or so a wild rumour circulates that someone is going to buy Twitter, probably Google. The travails of Twitter and its uncertain business model seem to make it a perfect fit for Google which, despite its behemoth status and repeated attempts to do so, has never cracked "social".

Its decision to restructure under the Alphabet holding company makes it easier to see how an independent Twitter could be slotted in without killing the social goose that laid the tweeting egg.

Google has spent hundreds of millions of dollars trying to revamp Google+, its attempt to create a social network to rival Facebook, but scaled back its ambitions in August. Gone is the unpopular attempt to bundle it together with more successful services by forcing people to sign into their YouTube account with Google+. Just like Google Buzz, its long-forgotten social network, it has gone back to the drawing board, which opens the door for Twitter.

There was a time, as recently as Facebook's float, that many in the market saw social networks as frivolous companies. Question marks have been expelled, if not obliterated, by the rampant success of Facebook and its minions Instagram and WhatsApp, which have raked in billions of users and, more importantly, invaluable data about these people in terms of who they are, what they like, where they are and who they talk to.

Google may have struggled with social, but it is this data element where it has shown its vulnerability after signing up to access Twitter's data "firehouse". Such deals are crucial to Twitter, which allows IBM to plug its data into Watson to create insights, but also shine a light on where Google is sorely lacking.

Chris Sacca, an investor in Twitter and a former Google employee, articulates what everyone was thinking in June when he describes the two businesses as an "instant fit". "They've never understood social, they have never understood those personal interactions. This bolts right in cleanly," he says.

Of course, it is no fait accompli and many argue that it will never happen. Google typically buys startup companies and lets them blossom. Android, YouTube and DoubleClick may be famous now, but were obscure when they were brought into Google. The one big "name" acquisition it made, Motorola, was a disaster and Google cut its losses quickly. Add to that the return of co-founder Jack Dorsey to Twitter. Perhaps #sold is still someway off after all.