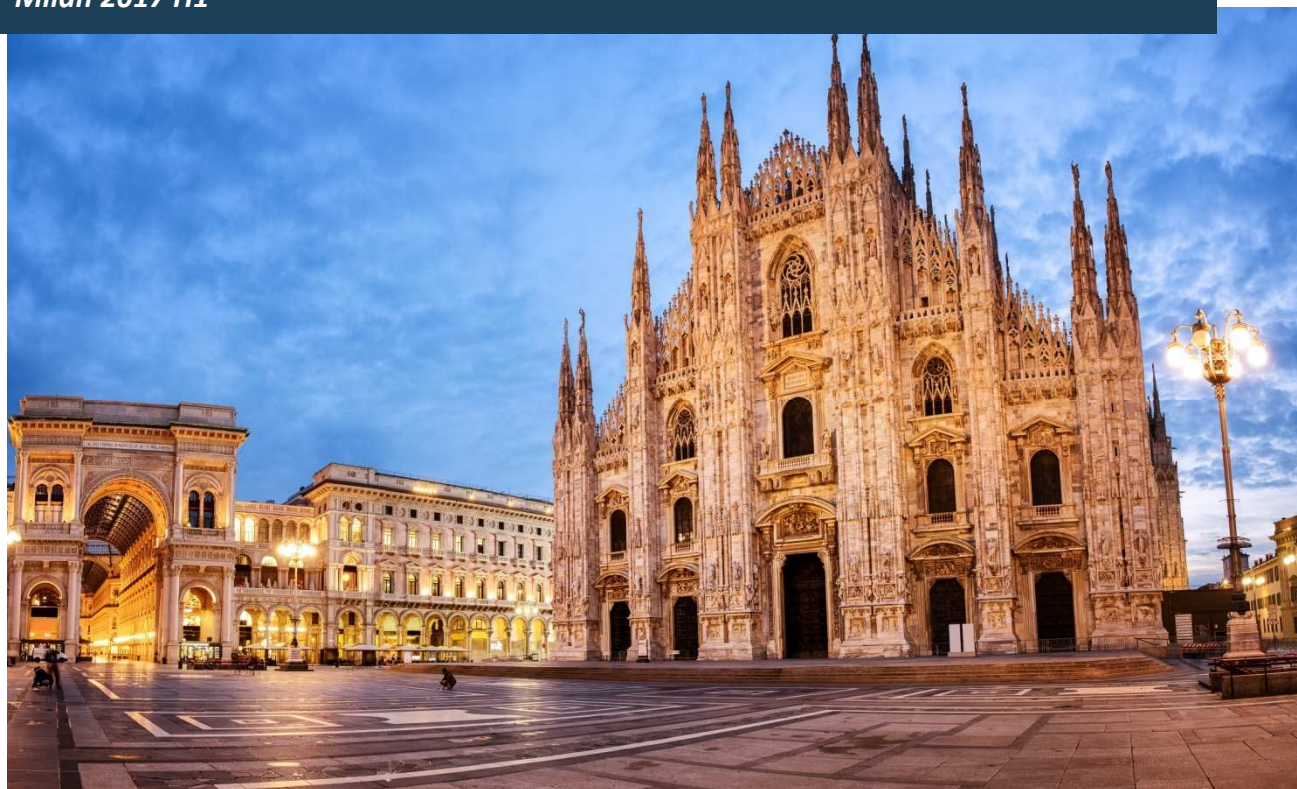


2017 H1

# Globalscope Newsletter

reporting on global M&A activity and the latest semi-annual conference

*Milan 2017 H1*



*"The starting point for business valuation across  
all sectors in any region in the global marketplace"*

**GLOBALSCOPE**  
INTERNATIONAL M&A ADVISORS

in association with

**atout capital**  
CORPORATE FINANCE

# About Globalscope

## What we do

Our focus is on mergers and acquisitions (M&A). This often includes representing clients who wish to divest or acquire a company and advising our clients on the related fine details including, for example, restructuring, international joint ventures and licensing initiatives.

We work with the senior management of private and public companies as well as private equity firms.

## Who we are

Globalscope was founded in 1987 when a small group of entrepreneurial corporate finance and business advisers came together to support clients in cross-border transactions.

We now have 53 member firms, with more than 600 professionals on the ground across 43 countries:

### AFRICA

Kenya  
South Africa

Fieldstone Africa  
Fieldstone Africa

### AMERICAS

Argentina  
Brazil  
Canada  
Mexico  
United States

Ficus Capital  
Pactor Finanças Corporativas  
Osprey Capital Partners Inc.  
Allegiance Capital Corporation  
Allegiance Capital Corporation  
Brooks Haughton  
Greif & Co.  
MelCap Partners, LLC  
Paramax Corporation  
Insignia Financial Advisors  
Ficus Capital S.A.

Panama  
Uruguay

### ASIAPAC

Australia

Terrain Capital  
Tomkins Turner  
Beijing HRS Consulting  
MAPE Advisory Group Pvt Ltd  
RCS Advisors (India) Pvt. Ltd.  
Naxel iPartners  
Kaede Financial Advisory Inc.  
Stirling Coleman  
H-Partners Korea  
Nexus Group

China  
India

Indonesia  
Japan  
Singapore  
South Korea  
Vietnam

### EUROPE

Armenia  
Belarus  
Belgium  
Croatia  
Czech Republic  
Denmark  
Finland  
France

Georgia  
Germany

Greece  
Hungary  
Israel  
Italy

Luxembourg  
Netherlands

Norway  
Poland

Portugal  
Romania

Russia  
Spain  
Sweden  
Switzerland

Ukraine  
United Kingdom

EV Consulting  
Capital Times  
Common Ground Corporate Finance  
Grubisic & Partners  
Venture Investors Corporate Finance  
Dansk Merchant Capital A/S  
Summa Capital  
Atout Capital  
CMW Corporate Finance  
Alliance Group Capital  
CCI Management  
CatCap  
Transfer Partners Group  
First Athens Corporate Finance SA  
Heal Partners  
Portofino Investments  
Benedetti & Associates  
Palladio Corporate Finance  
Tenzing Partners SA  
DEX international M&A  
Stratégique  
Impello Management AS  
Augeo Ventures  
Aventis Capital  
Bluemint Capital  
First Southeast Investment Partners  
RB Partners  
Next Corporate  
Jarl Securities  
IFBC  
InternationalScope Ltd.  
Capital Times  
Corbett Keeling  
Silverpeak Investment Bank



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business valuation across  
all sectors in any region in  
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# Definitions and notes

## Definitions

### TEV - "Total Enterprise Value"

TEV is an economic measure reflecting the market value of a whole business independent of a business' capital structure. The analysis in this document calculates TEV as follows:

- For transaction data, by reference to the target company of each transaction, from the transaction consideration, share of equity acquired, and other disclosed details such as the target's net debt, as at the transaction date,
- For listed company data, from the listed share price of each company, together with known details of its capital structure including issued shares and net debt, as at the stated date.

### EBITDA - "Earnings Before Interest, Tax, Depreciation and Amortisation"

EBITDA is a business' net income with interest, taxes, depreciation and amortisation added back which is often taken as a proxy for the cash generation rate of a business. The analysis in this document calculates EBITDA as follows:

- For transaction data, by reference to the target company of each transaction, from the most recent known historic 12 months' reported value as at the transaction date,
- For listed company data, from the most recent known historic 12 months' reported value as at the stated date.

### TEV/EBITDA - "TEV/EBITDA Multiple"

The TEV/EBITDA Multiple is calculated for each transaction where more than 40% of the target's equity is sold or for each listed company where the required data is disclosed. Where appropriate, the analysis in this document uses weighted averages calculated as follows:

- For transaction data analysis, selected transaction TEV/EBITDA Multiples, within a given six month period, are weighted by reference to each transaction's reported consideration or "transaction value",
- For listed company data analysis, selected listed company TEV/EBITDA Multiples, on the stated date, are weighted by reference to each listed company's TEV,
- Anomalous outlying data points are excluded.

### Size

The size classifications used in this document are Globalscope defined limits with respect to the value of the included transactions or listed companies as follows:

- For transaction data, transactions are included where the TEV of the target is disclosed and identified by Capital IQ as being greater than or equal to \$5m (All Market Transactions), or greater than or equal to \$5m and lower than or equal to \$150m (Lower-Mid Market Transactions).
- For listed company data, companies are included where there is a stock market listing, and a TEV of the company that is disclosed and identified by Capital IQ as being greater than or equal to \$5m (All Market Listed Companies), or greater than or equal to \$5m and lower than or equal to \$150m (Lower-Mid Market Listed Companies).

### Sectors

The sector classifications used in this document are Globalscope defined aggregations of similar business activities based on sub-sectors defined by reference to the primary Capital IQ industry classification as follows:

- For transaction data, the target company of each transaction,
- For listed company data, each listed company.

### Regions

The regional classifications used in this document are defined by reference to the Capital IQ regional classification as follows:

- For transaction data, the target company of each transaction,
- For listed company data, each listed company.

### Note on using multiples for business valuation:

It is important to note that TEV/EBITDA Multiples calculated as set out above and applied to the EBITDA of a typical lower-mid market business would, in the majority of cases, be expected to overstate the value of the business. This can in part be due to the net impact of a combination of the following factors:

- A discount may be applied due to reduced liquidity of shares in a lower-mid market business,
- A premium may be applied due to the additional value of owning a controlling equity share,
- A (perceived) lack of transparency with respect to a lower-mid market business' affairs,
- "TEV" is based on forecast profits (which usually assume growth) whereas these multiples are based on historic profits.



## Globalscope Conference

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# New developments

## Valuation multiples in lower market fall

2016 H2

### Synopsis

In the six months to February 2017 the global average Lower-Mid Market Transactions TEV/EBITDA Multiple has fallen to 8.9, its lowest value in the past year. This latest business valuation indicator is based on an analysis of 20,626 transactions in the period, of which 24% were categorised as cross-border.

Financial Services sector companies commanded the highest valuations, with Lower-Mid Market Transactions TEV/EBITDA Multiples averaging 10.7. This is in contrast to the Industrials sector where the average was 7.7.

## Network expansion

Two leading M&A firms join Globalscope



### Synopsis

At the recent semi-annual conference in Milan, Globalscope president Russell D'Alba announced two new Globalscope members: First Southeast Partners (Romania), and IFBC (Switzerland).

Dr Thomas Vettiger, Managing Partner of IFBC commented:



Dr Thomas Vettiger  
IFBC

*"We are very proud to join Globalscope, one of the leading and fastest growing M&A networks worldwide. The focus on cross-border M&A, the professional attitude of the member companies and the outstanding reputation of the network were key reasons for selecting Globalscope. The cooperation with other members will allow us to strengthen our M&A services and will enable us to present handpicked international deal opportunities to our clients. We are looking forward to successful collaborations with our worldwide colleagues."*

### New Members

IFBC

FIRST  
SOUTHEAST  
INVESTMENT  
PARTNERS



# Conference report

## Synopsis

The 2½ day conference programme incorporated best practice presentations on marketing, integration and collaboration within the network and working with PE firms.

The programme opened with an M&A cocktail party at Palazzo Visconti where Globalscope members met with Milan's top Private Equity representatives, and heard from Erik F. Nielsen, Global Chief Economist at Unicredit. In addition, the Globalscope group also undertook briefings on Italian M&A from law firm CBA Studio Legale e Tributario.

## Host member firms:

The conference was joint-hosted by Benedetti & Associates and Palladio Corporate Finance, both Italian advisory firms. Together they have offices in Milan and Vicenza, and both firms provide M&A, joint venture advisory, debt advisory and business development services.

BENEDETTI & ASSOCIATES  
CORPORATE FINANCE ADVISORY / MILAN

&

PALLADIO CORPORATE FINANCE

## Headlines

Globalscope's M&A track record continues to gain momentum with the following headlines in the last six months:



### Greatest number of transactions:

CatCap (*Germany*) reported 10 deals completed in the last 6 months.

### Largest transaction:

CatCap (*Germany*) for the A&O Hotels and Hostels, Germany, M&A transaction with TPG Real Estate, based in United States.

### Intra-Globalscope deal:

Kaede Financial Advisory (*Japan*) and CatCap (*Germany*) which advised acquirer CBC Group and target ABC Dental AG respectively.



## Comment



Russell D'Alba  
Globalscope President

*"I was honoured to preside over the most well-attended Globalscope conference to date, as the network yet again hit key priorities: developing deeper member collaboration, sharing more techniques learned through best practices and generating the means to increase the volume of partnership deals, thereby providing more tangible benefits for our member firms."*



## Next

The next Globalscope conference will be held in Perth in October 2017.

# Global M&A market landscape

Thousands of M&A transactions all across the globe are closed in any given six month period.

Transaction data, such as the latest published EBITDA and the TEV (see definitions on page 3) at the time of sale of the target company, are sometimes published. These data can be used to calculate average transaction TEV/EBITDA Multiples i.e. the average TEV/EBITDA Multiple across all transactions for which data is disclosed for each six month period.

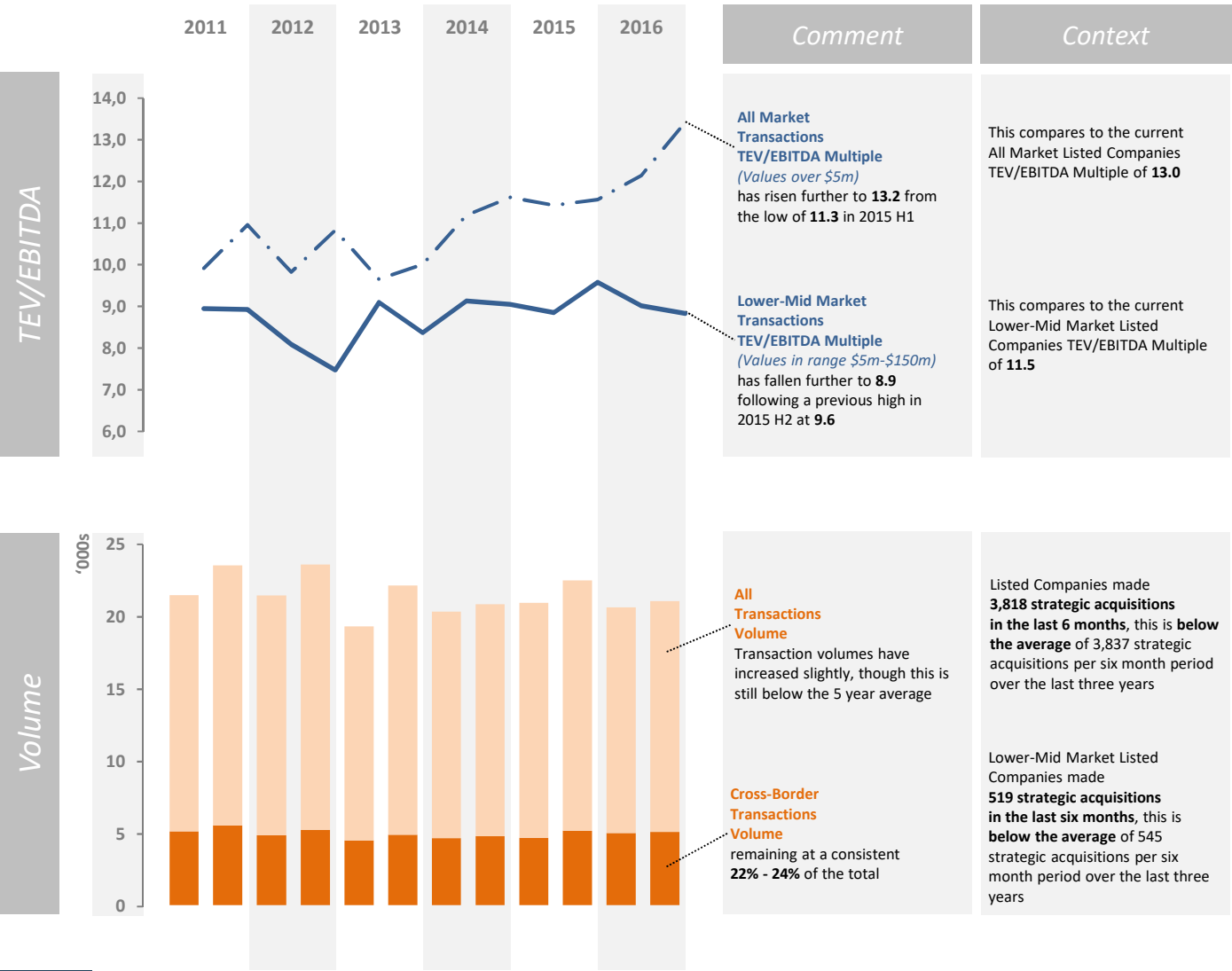
Across a large enough sample of transactions, these average TEV/EBITDA Multiples are a useful tool for assessing global valuation trends, as set out in the first chart below.

## All Market Transactions

Dot-dash lines show average data from all disclosed transactions where the transaction value was at least \$5m. The resulting All Market Transactions TEV/EBITDA Multiple, which can be used as a proxy for the M&A market as a whole, shows a marked increase in average EV/EBITDA values.

## Lower-Mid Market Transactions

Solid lines show average data from all disclosed transactions where the transaction value was at least \$5m but no greater than \$150m. The resulting Lower-Mid Market Transactions TEV/EBITDA Multiple shows a slight decrease, whereas the market as a whole shows a marked increase.





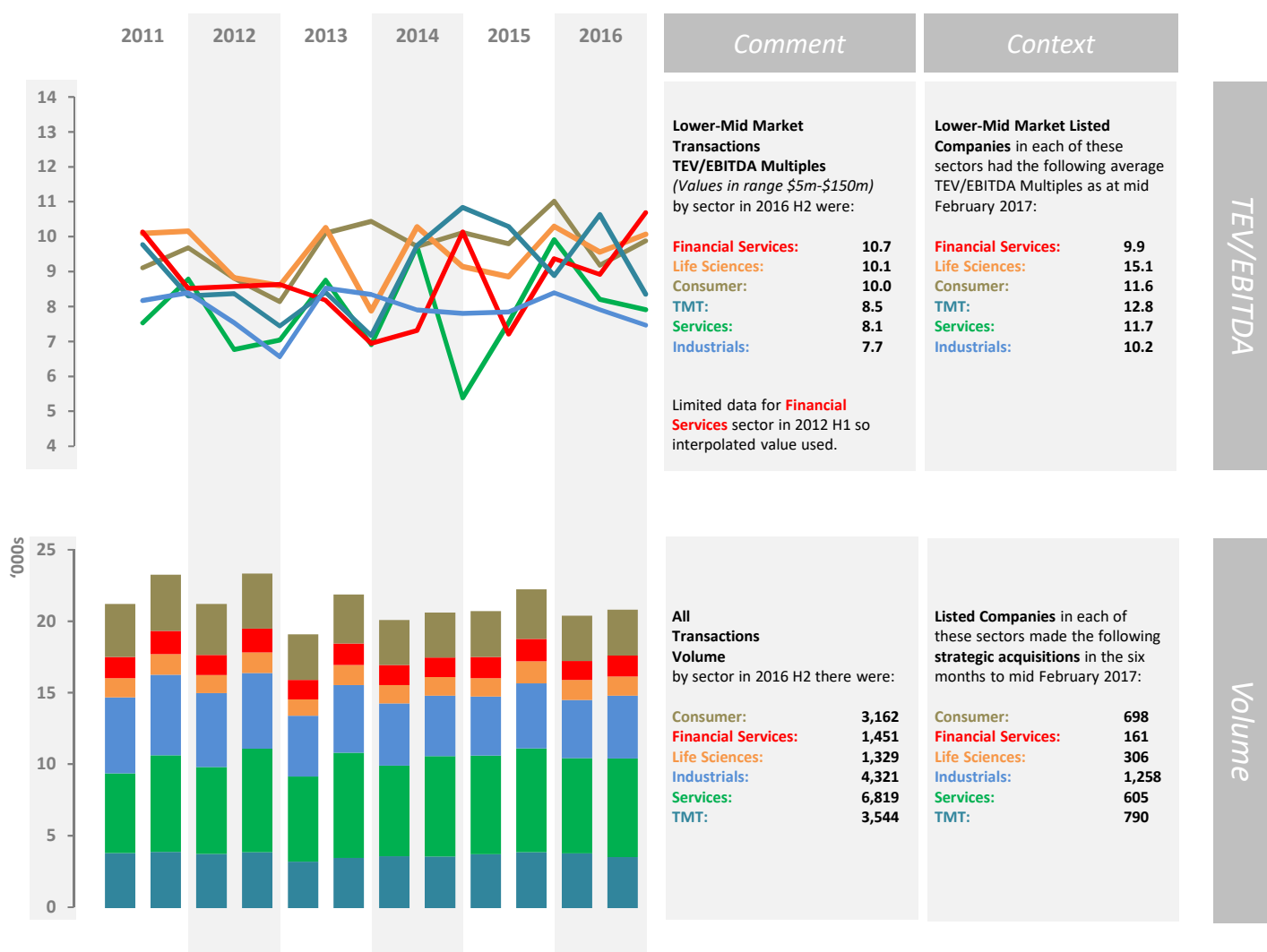


# Lower-mid market sector highlights

The following charts show global Lower-Mid Market Transaction TEV/EBITDA Multiple trends of six underlying sectors as identified and tracked by Globalscope.

Each of these average TEV/EBITDA Multiple data points represent transactions involving target companies operating in broadly the same sectors, wherever they were located across the globe, where the target company's enterprise value was at least \$5m but no greater than \$150m.

Generally these data are significantly more volatile than the global average as they are based on fewer transactions and global events may affect each sector differently.







## Regional Valuation Statistics

*Country by country and region by region analysis  
of business valuation statistics*

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# Transactions data by region

## All Market Transactions (dot-dash lines)

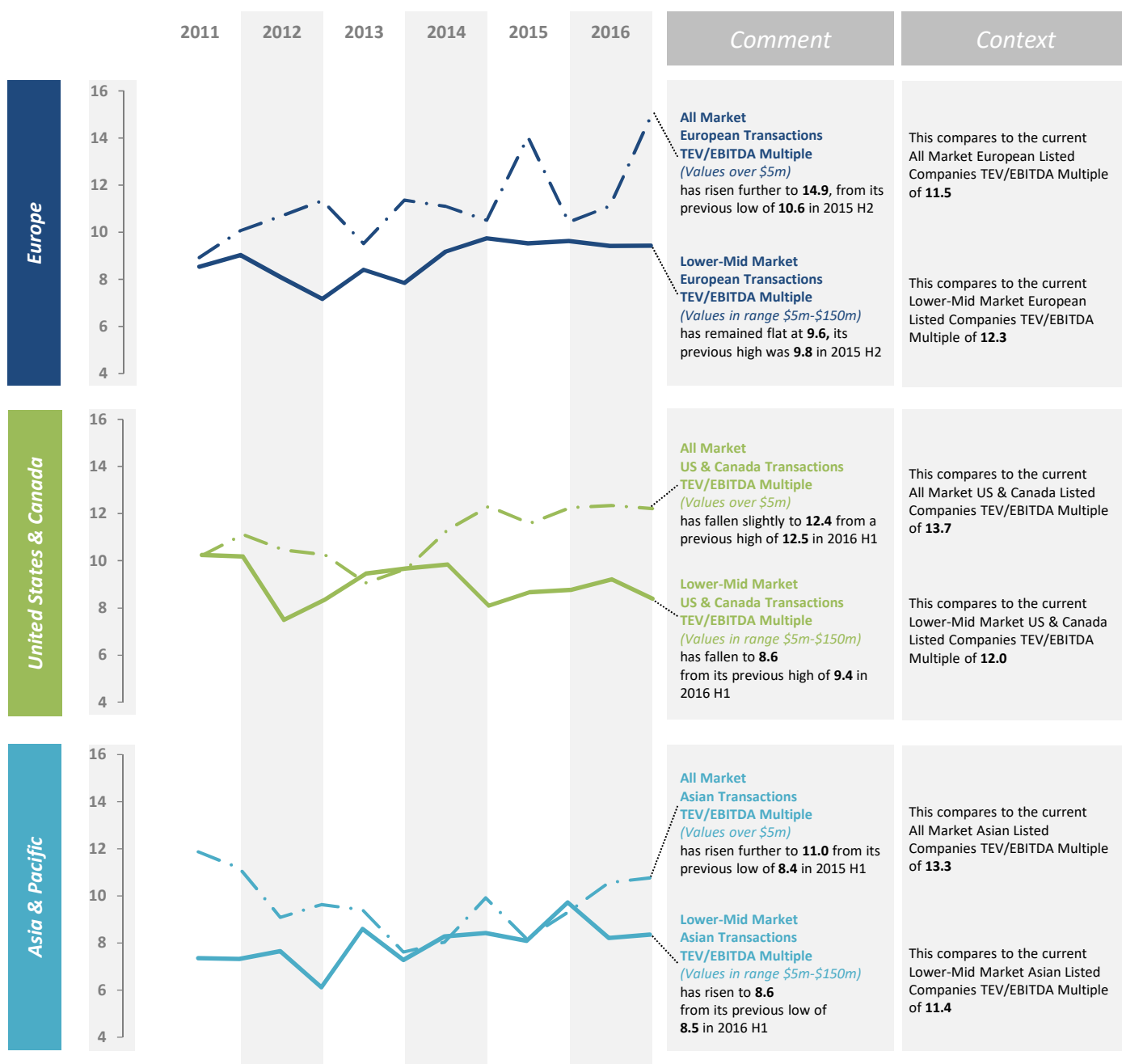
Dot-dash lines show average TEV/EBITDA Multiple data from all disclosed transactions where the transaction value was at least \$5m and the target location was recorded in one of the five global regions.

The data show Europe increasing sharply, with other areas staying relatively flat.

## Lower-Mid Market Transactions (solid lines)

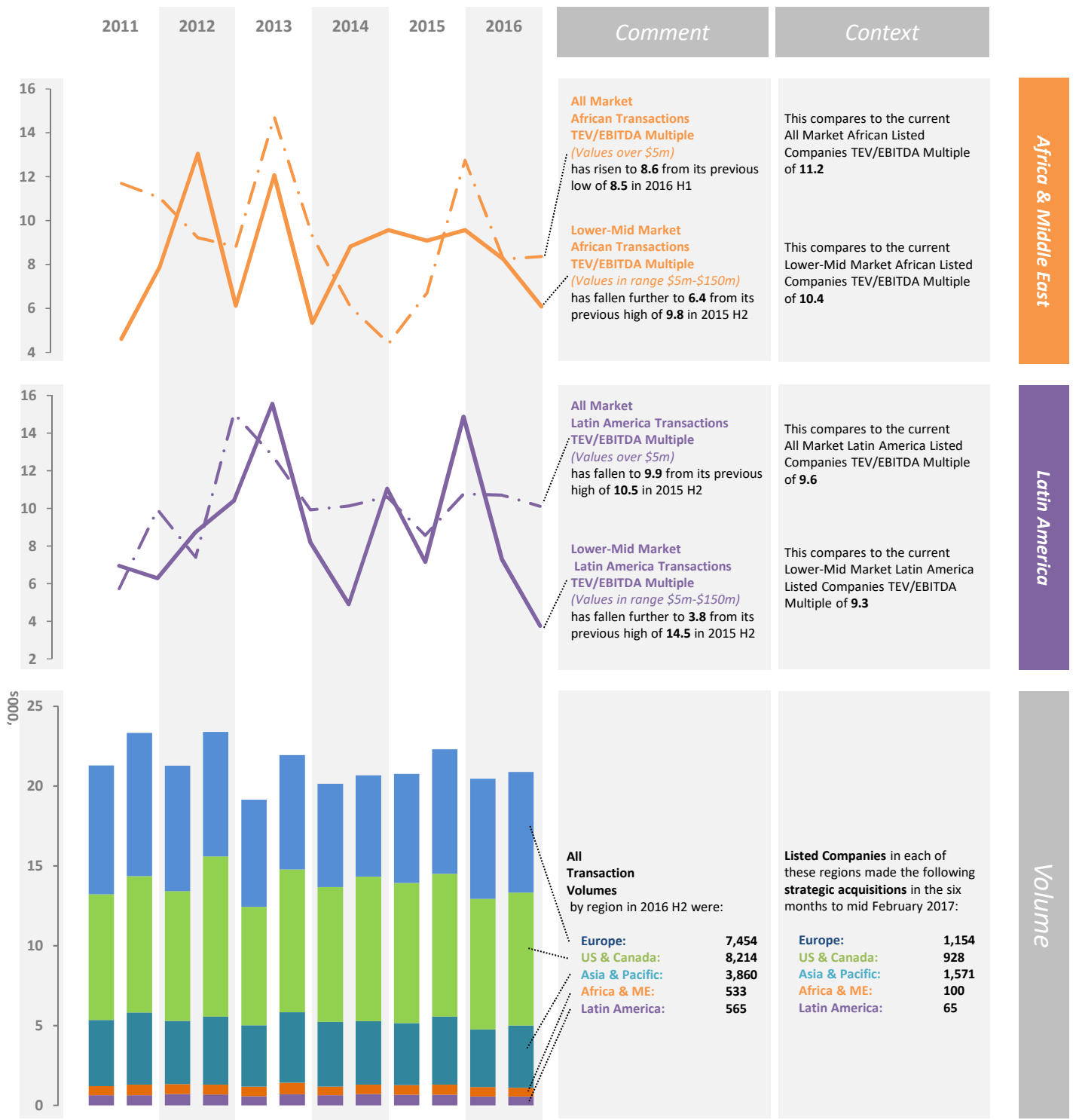
The solid line shows average TEV/EBITDA Multiple data from all disclosed transactions where the transaction value was at least \$5m but no greater than \$150m and the target location was recorded in one of the five global regions.

Other than Latin America and Africa & Middle East which have both fallen sharply, the data show only small variations in value from the prior period.





Africa & Middle East and Latin America lower-mid market transaction data are more scarce than those for the other regions. As such these average transaction multiples are significantly more volatile and are included for completeness as much as for providing a guide to valuation trends in these regions.



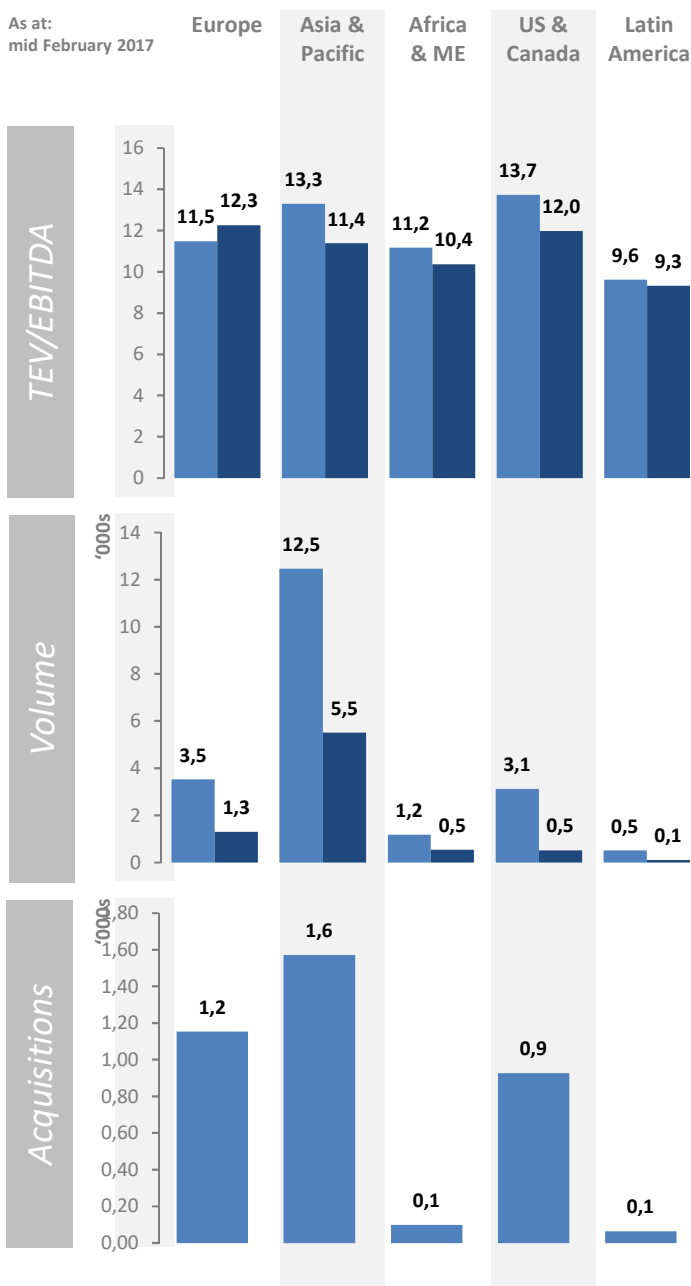


# Listed companies data by region

Listed companies' TEVs are calculated from each company's current share price (which reflects the market's expectation of future EBITDA performance).

The EBITDA figures used to calculate the Listed Company TEV/EBITDA Multiples shown here are the reported EBITDA values of each company for the last 12 months (LTM) – this gives TEV/EBITDA Multiples more directly comparable to Transaction TEV/EBITDA Multiples than if forecast (NTM) EBITDA is used. A discount should be applied if using these figures for a valuation of a growing business, which would normally use forecast performance data.

As at:  
mid February 2017



## All Market Listed Companies (light)

The light blue bars show average data from listed companies with TEV of at least \$5m. The results can be used as proxies of TEV/EBITDA Multiples for the current market as a whole.

## Lower-Mid Market Listed Companies (dark)

The dark blue bars show average data from listed companies with TEV of at least \$5m but no greater than \$150m. The results can be used as proxies of TEV/EBITDA Multiples for the current lower-mid market as a whole.

Comment	Context
<b>All Market Listed Companies TEV/EBITDA Multiple</b> <i>(Values over \$5m)</i> is highest in US & Canada at <b>13,7</b> , 43% higher than the lowest in Latin America of <b>9,6</b>	This compares to the global total All Market Listed Companies TEV/EBITDA Multiple of <b>13,0</b>
<b>Lower-Mid Market Listed Companies TEV/EBITDA Multiple</b> <i>(Values in range \$5m-\$150m)</i> is highest in Europe at <b>12,3</b> , 32% higher than the lowest in Latin America of <b>9,3</b>	This compares to the global total Lower-Mid Market Listed Companies TEV/EBITDA Multiple of <b>11,5</b>
<b>All Market Listed Companies Volume</b> <i>(Values over \$5m)</i> is significantly higher in Asia & Pacific than anywhere else at <b>12,473</b>	The global total number of All Market Listed Companies is <b>20,833</b>
<b>Lower-Mid Market Listed Companies Volume</b> <i>(Values in range \$5m-\$150m)</i> is again particularly low in Latin America at <b>111</b>	The global total number of Lower-Mid Market Listed Companies is <b>7,990</b>
<b>All Market Listed Companies</b> <i>(Values over \$5m)</i> Acquisitions in last six months is highest in Asia & Pacific in absolute terms at <b>1,571</b> acquisitions, but highest is Europe on an acquisitions per Listed Company basis at 33%, compared to Africa & ME's 8%	In total there were 3,818 strategic acquisitions by All Market Listed Companies in the six months to mid February 2017.  These compare to All Market Transaction Volumes in 2016 H2 by region of (in '000s):  Europe: 7.5 Asia & Pacific: 3.9 Africa & ME: 0.5 US & Canada: 8.2 Latin America: 0.6



The following data are compiled for each sub-region with a Globalscope member presence for which statistics are available.

		Globalscope Offices	All Market Listed Companies (Values over \$5m)		Lower-Mid Market Listed Companies (Values in range \$5m-\$150m)	
As at: mid February 2017			Number listed	TEV/EBITDA Multiples	Number listed	TEV/EBITDA Multiples
Europe	British Isles	2	782	12.3	247	12.9
	East Europe	9	501	9.4	337	11.2
	North Europe	7	694	9.9	234	12.7
	South Europe	6	435	11.6	151	12.2
	West Europe	12	1,115	11.5	335	12.5
	<b>Total Europe</b>	<b>36</b>	<b>3,527</b>	<b>11.1</b>	<b>1,304</b>	<b>12.2</b>
USA & Canada	Canada	5	501	13.8	175	12.4
	United States	8	2,477	13.7	235	11.9
	Others	1	154	21.3	111	11.6
	<b>United States and Canada</b>	<b>14</b>	<b>3,132</b>	<b>13.7</b>	<b>521</b>	<b>12.0</b>
Asia & Pacific	Indian Ocean	4	1,881	14.8	1,162	12.1
	North & East Asia	5	7,978	13.2	3,003	11.3
	Pacific	5	2,614	12.9	1,349	11.3
	<b>Total Asia / Pacific</b>	<b>14</b>	<b>12,473</b>	<b>13.4</b>	<b>5,514</b>	<b>11.4</b>
Africa & Middle East	Africa	2	506	10.2	259	8.9
	Middle East	1	683	11.7	281	11.5
	<b>Total Africa / Middle East</b>	<b>3</b>	<b>1,189</b>	<b>11.0</b>	<b>540</b>	<b>10.2</b>
Latin America	Brazil	1	175	9.1	28	8.9
	Uruguay	2	-	-	-	-
	Others	1	337	10.2	83	9.5
	<b>Latin America</b>	<b>4</b>	<b>512</b>	<b>9.6</b>	<b>111</b>	<b>9.3</b>





## Sector-Specific Analysis

*A closer look at the underlying sector-specific structural drivers, new developments, recent M&A and projections*

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## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Consumer sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the growth of Direct to Customer (D2C) companies and how traditional competitors are adapting. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### Travel Forecast

Economic fundamentals for consumer spending are solid going into 2017, which gives travel companies a good reason to remain optimistic about demand for holidays and trips of all types.

#### Vietnam Becoming a Key Manufacturer

The Trans-Pacific Partnership (TPP) trade deal has now become synonymous with sourcing in Vietnam, with reduced tariffs becoming a lucrative prospect for the manufacturing-heavy country.

#### CPG Giants vs D2C Start-Ups

Companies that have historically encountered few online competitors are now reacting to disruptive influences from focused, predominantly online, D2C start-ups.

#### Enhanced Foods

Healthy eating and snacking has continued to expand, while an emphasis on sustainable resourcing, bolstered by a growing Generation Z, has led to plenty of activity.

### Notable recent transactions

#### BAT Agrees Takeover of Reynolds American

British American Tobacco has agreed to a \$49.4bn takeover of U.S. rival Reynolds American, creating the world's biggest listed tobacco company.

#### Gore Holdings Acquires Hostess Brands

The affiliate of The Gore Group completed their acquisition of Hostess Brands, LLC, the maker of favourite American snacks Twinkies, Ding Dongs and CupCakes, in a \$725m deal.

#### L Catterton Acquires Pinarello

L Catterton, the largest consumer-focused private equity firm in the world, has acquired Pinarello, a leading brand of premium road bicycles, accessories and apparel.

### Lower-mid market observations

#### Impact of BAT

The proposed US border adjustment tax, or BAT, could drive up prices for everyday necessities (food, petrol, clothing, medicine), directly impacting the customer. It might create a potential global trade war that would curtail US growth, directly conflicting with President Trump's plan for the States.

#### UK Market Bolstered by Mid-Market

The contribution of the UK mid-market is set to rise over the coming years. The economy will receive an 18% boost from some 35,000 or so companies over the next five years, from \$360bn in 2015 to \$420bn in 2020.

### Sector contacts



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## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Financial Services sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the uncertain regulatory atmosphere. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### Increase in non-regulated Consumer lending

In Europe, there has been an increase in online consumer finance activity with new companies being established and increased M&A activity. An example is 4Finance, Europe's largest online & mobile consumer lender, which now has 7.7 million customers and granted \$1.2bn of loans last year.

#### Blockchain Gaining Traction Globally

One of Russia's largest private banks, Alfa Bank, announced it conducted the first ever blockchain-based transaction in the Russian banking sector. It happened in December 2016, the counterparty to this contract being S7, one of Russia's largest airlines.

#### Investment Managers Turn to Robots

Some of the world's oldest asset and wealth managers are turning to robots and artificial intelligence to increase profits. Some have moved to using algorithmic trading platforms, whilst others are removing the need for some back office staff, thus reducing costs and increasing productivity.

#### Digitalization

More and more large banks have announced their focus on digitalization. This involves either developing their own solutions through newly created, dedicated divisions, or acquiring digital competitors.

### Notable recent transactions

#### Lloyds acquires MBNA Europe from BofA

Lloyds Banking Group agreed to acquire UK-based MBNA Europe Bank Limited from Bank of America Corporation, paying total cash consideration of *circa* \$2.4bn. This transaction further enhances Lloyds' position in the UK banking market.

#### Unicredit sells its 33% stake in Bank Pekao

Unicredit Group has agreed to sell a 33% stake in Polish Bank Pekao to Polish Development Fund S.A. and Powszechny Zakład Ubezpieczeń SA, a listed Poland-based insurance company. The Transaction is valued at PLN10.59bn (\$2.6bn), which makes it one of the largest ever Central European deals in the Financial Services sector.

#### Goldman Sachs' Asset Management MBO

TA Associates, a leading PE fund, has backed the MBO of Goldman Sachs' Australian Asset Management business.

### Lower-mid market observations

#### Challengers Providing Better Investor Returns

'Challenger Banks', such as Metro Bank, Atom Bank and others, are providing a better return for investors according to KPMG. Return on Equity is approximately 4.6% for large banks, compared to 17% for challengers.

#### Payments Providers Focus on Cybercrime

As the number of payments and payment providers increases, regulatory pressure will lead to a focus in customer data protection, enhanced encryption, and the use of biometrics for payments.

#### InsureTech an Area of Interest

InsurTech, the latest sub-sector of FinTech, is enjoying increased interest from both equity and debt funders. Insurance companies are often laced with legacy systems, and an acquisition in the InsurTech space could be a quick fix for larger organisations.

### Sector contacts



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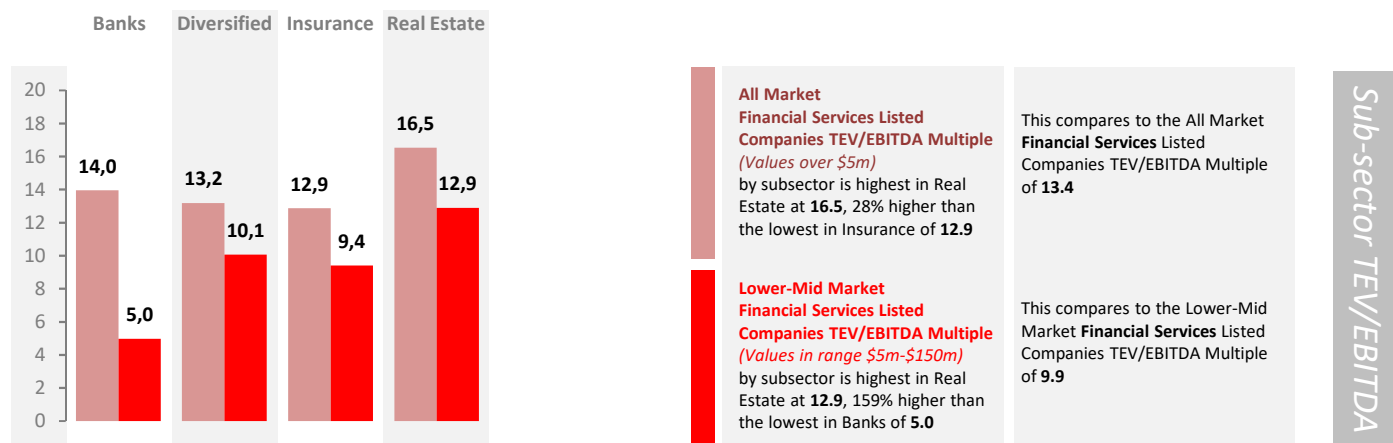
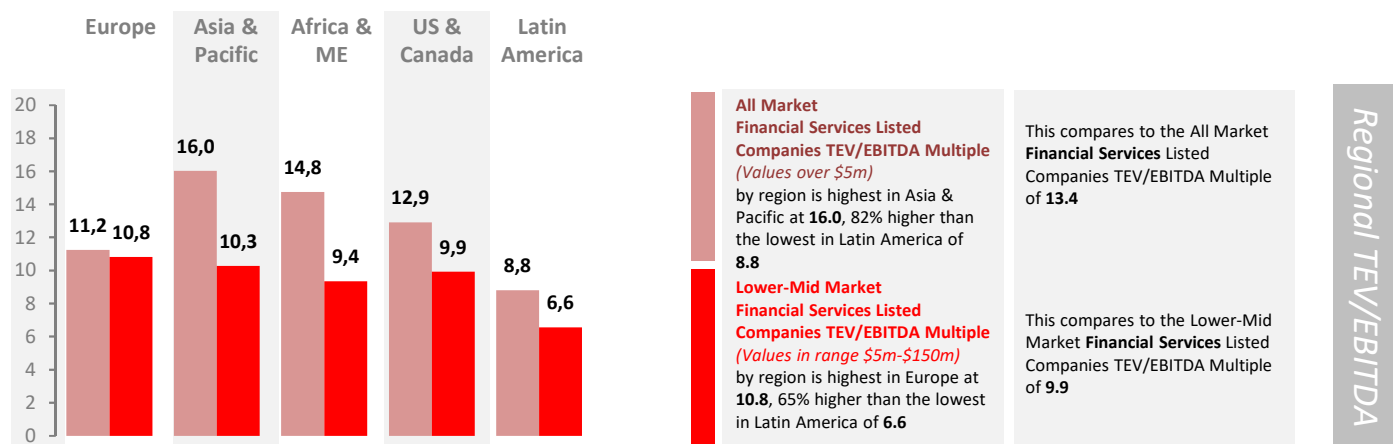
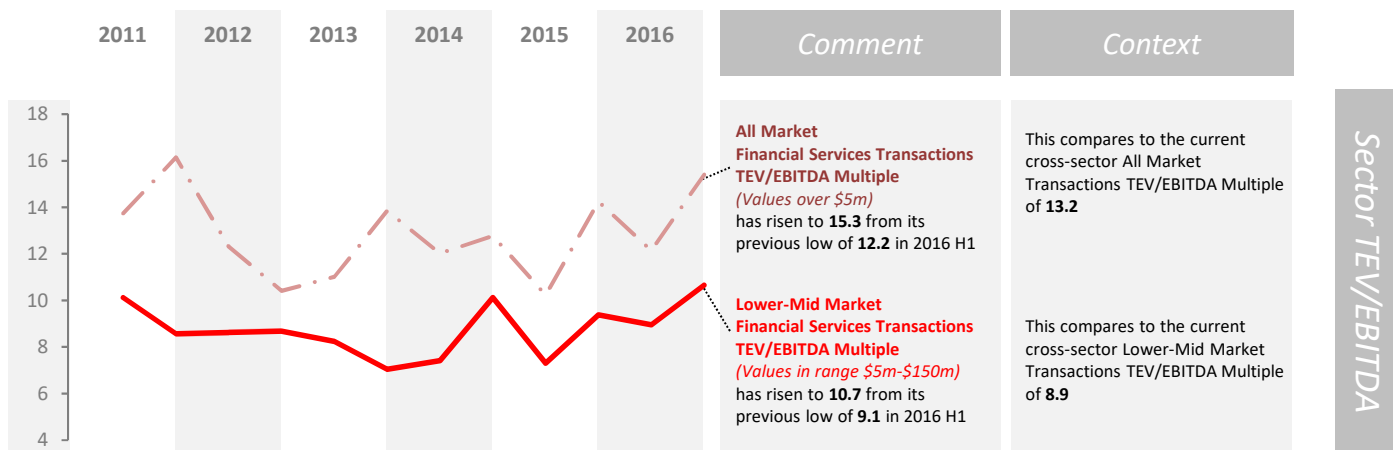
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# M&A trends & market analysis

The following data are compiled specifically for the Financial Services sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid February 2017.



## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Life Sciences sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the continued tightening of regulation, in spite of some policy uncertainty. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### Management of Fast Moving Diseases

Companies and local governments, particularly those in developing countries, are being forced to look at alternative measures to contain fast moving diseases. Zika and Ebola, for example, placed a huge strain on local health and social care systems.

#### Numbers of Dementia Sufferers Increasing

The number of worldwide Dementia sufferers is set to double every 20 years, meaning that by 2030 there will be around 74.7 million sufferers. Technology such as Virtual Reality may be used to treat the condition, though refinement is still needed.

#### Innovation Shaping the Landscape

New technologies, as well as improvements on older technologies, mean that healthcare companies are having to adapt quickly to avoid being overtaken by new market entrants. For example, Virtual Reality has been touted as an answer to some mental disorders where drugs were previously the given treatment. Similarly, improved 3D printed prosthetics are widening the scope for both surgeons and consumers as more refined methods of production are utilised. Some commentators, however, are saying that wearable technology has 'had its day', and has a limited future in healthcare.

### Notable recent transactions

#### Takeda Pharmaceuticals Acquires ARIAD

Japanese listed pharmaceutical giant Takeda has acquired US-based therapeutics business ARIAD for around \$5.5bn. Through this acquisition, Takeda is eyeing further expansion and strengthening of its Oncology business.

#### Sanofi and Boehringer Complete Asset Swap

One year after announcing the deal, Sanofi has exchanged its animal care business for Boehringer's consumer healthcare business. The combined value of the businesses is *circa* \$23.5bn.

#### Allergan Acquires LifeCell

NYSE listed Allergan has acquired regenerative medicine company LifeCell for approximately \$2.9bn in cash. The acquisition marks Allergan's entry into the regenerative medicine space.

### Lower-mid market observations

#### Vertical and Horizontal Consolidation

Increasing cost pressures in the sector are forcing companies to merge and form large health systems or chains that can leverage economies of scale. The same can be said for joint venture projects.

#### Virtual Manufacturing

Rising costs in the sector, coupled with increased regulatory pressure, are forcing companies further towards an asset light or 'Virtual' business model. This means companies outsource a large proportion of manufacturing to save on capital outlay.

#### Ageing Population Creating Opportunities

By 2020, the number of people over the age of 65 worldwide will have increased 9% since 2015, from 554 million to 604 million. This means the consumer pool for new products and technologies is ever growing.

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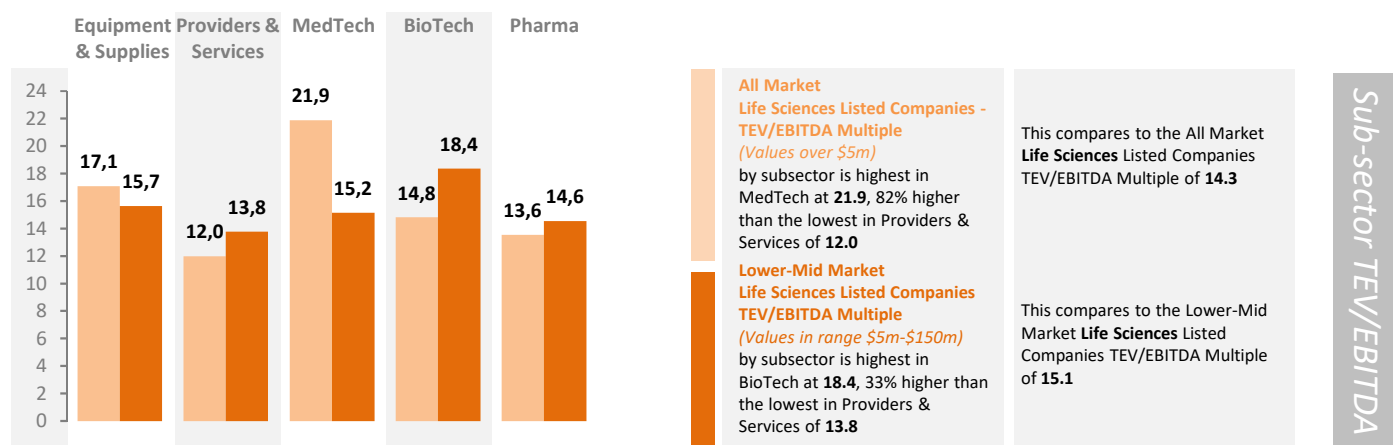
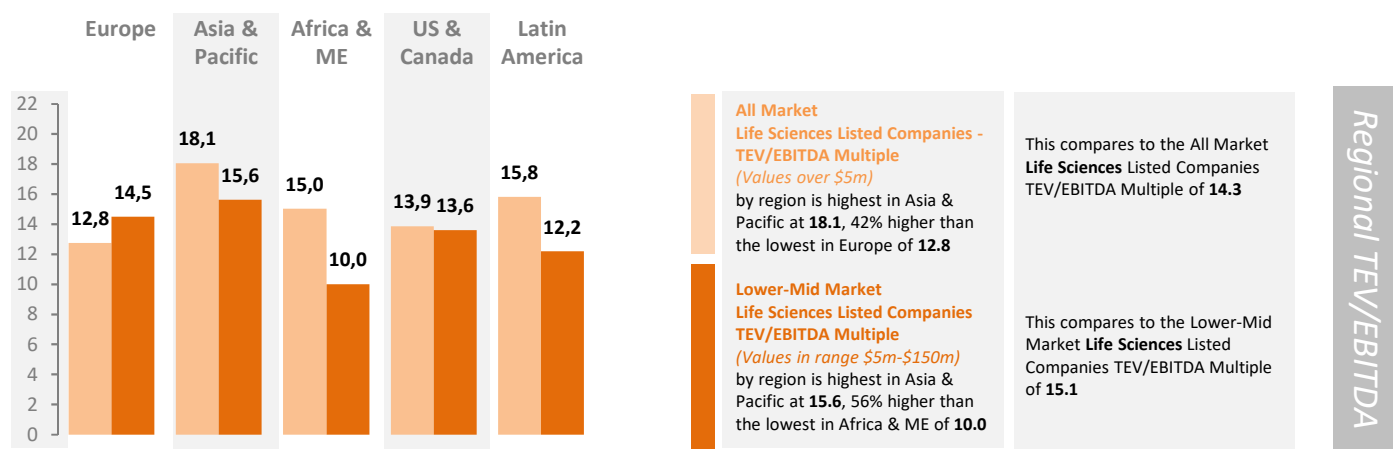
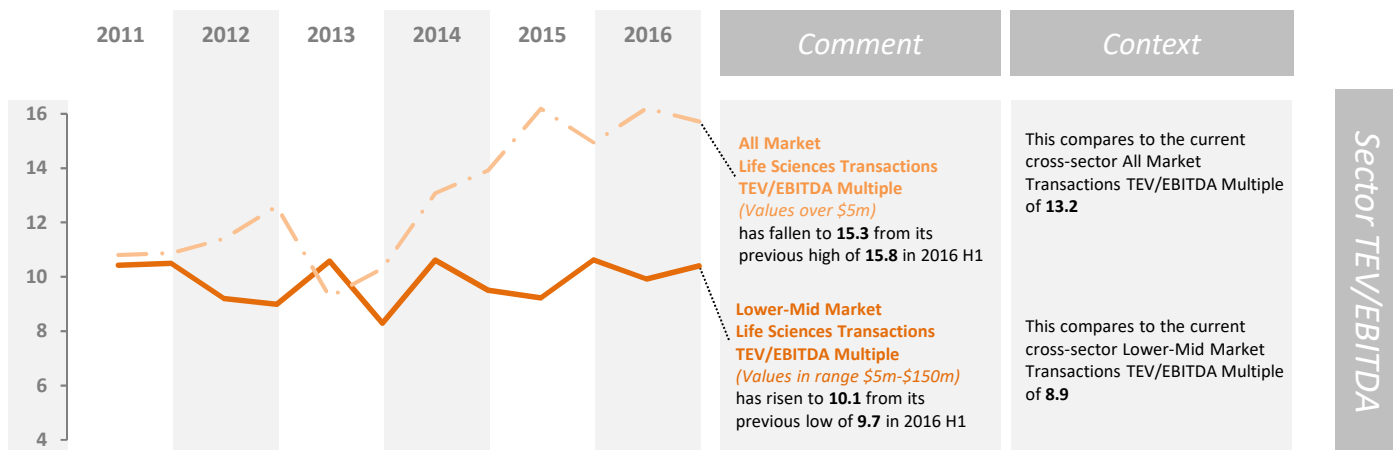


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# M&A trends & market analysis

The following data are compiled specifically for the Life Sciences sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid February 2017.





## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Industrials sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the changing use of fossil fuels, which is dramatically altering the industrials sector. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### Defence Budgets on the Rise

Increasing tensions between Russia and the US, as well as the ongoing issues with the Islamic State, have seen some countries increase their defence budgets. China, for example, increased its defence budget by 7% from 2016 to 2017.

#### US Infrastructure Set for Reform

The age of US Infrastructure has come under scrutiny by the Trump administration. A key pledge in Donald Trump's campaign was greater investment in US infrastructure. Long-term infrastructure projects often endure economic slow-down owing to their essential nature.

#### Commercial Aerospace Continues Growth

Commercial aerospace is expected to continue its trend of growing at a rate greater than the sector average. This trend is driven by increasing air passengers lured by cheap fares and shorter flight times. Furthermore, busier flight schedules are leading to an accelerated equipment replacement cycle.

#### Shorter Cycle Projects for O&G Companies

Tumbling oil prices forced many upstream and downstream firms to shift towards shorter term projects. This allows companies to protect against further project cancellations in the event of another downturn.

### Notable recent transactions

#### Glencore and Qatar Purchase Stake of Rosneft

Glencore and the sovereign wealth fund of Qatar have together acquired a 19.5% stake in Russian oil company Rosneft for *circa* \$11bn.

#### Evonik Acquires Air Products Division

NYSE listed Air Products has sold its Performance Materials Division to German trade buyer Evonik for \$3.8bn. The deal took just over 9 months to complete since its May 2016 announcement.

#### Vinci Highways Acquires Linea Amarilla

French company Vinci has acquired road builder and maintenance company Linea Amarilla for *circa* \$1.1bn. Vinci Highways operates and maintains more than 1,800km of highways and 1,300km of urban roads across 13 countries.

### Lower-mid market observations

#### Companies Expanding into New Geographies

Data compiled by KPMG has shown that, over the past two years, 87% of manufacturing companies have taken steps to expand into new geographies. Furthermore, 92% said that they planned to do so over the next two years. This might be a sign that political uncertainty is not having as much of an effect on the engineering sector as it has with other sectors.

#### Environmental Products Lead to Growth

Companies that focus on the research and development of, or production of, environmentally friendly products can increase their market share quickly, as worldwide governmental policy is beginning to force the issue. Furthermore, the world's use of fossil fuels is constantly under scrutiny, with many countries now providing tax breaks for environmentally friendly cars.

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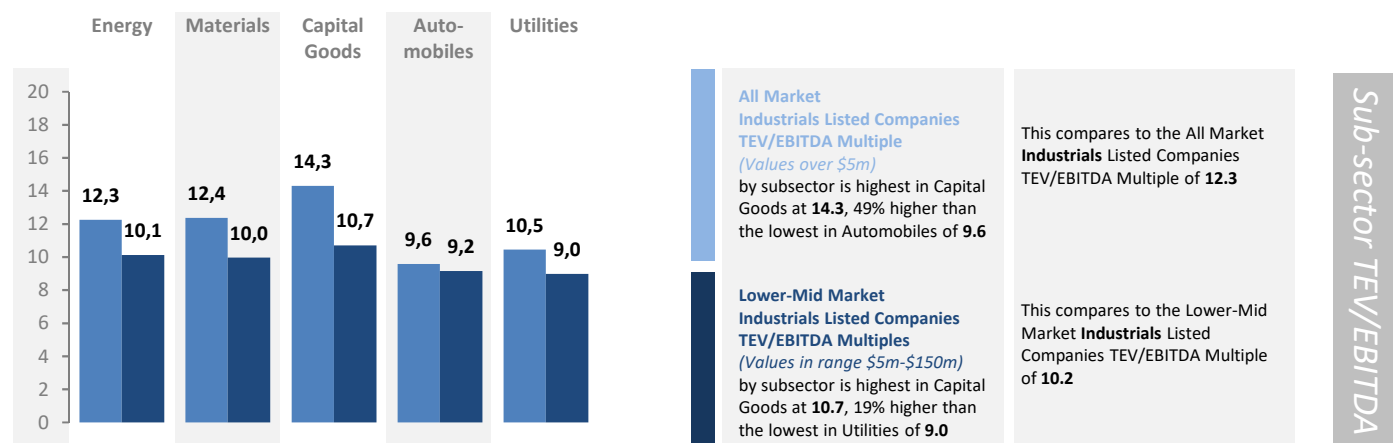
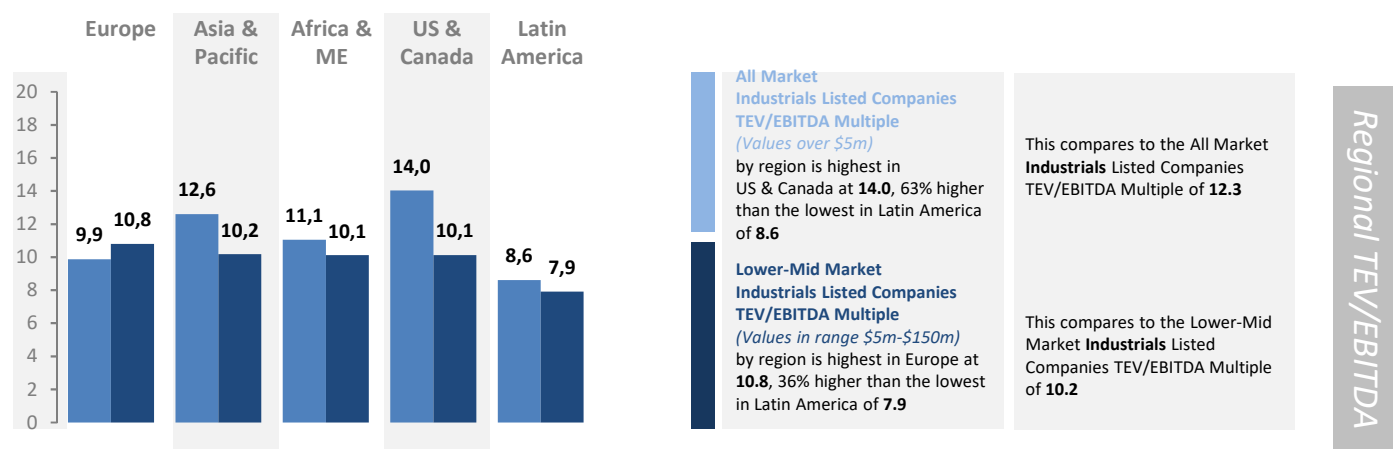
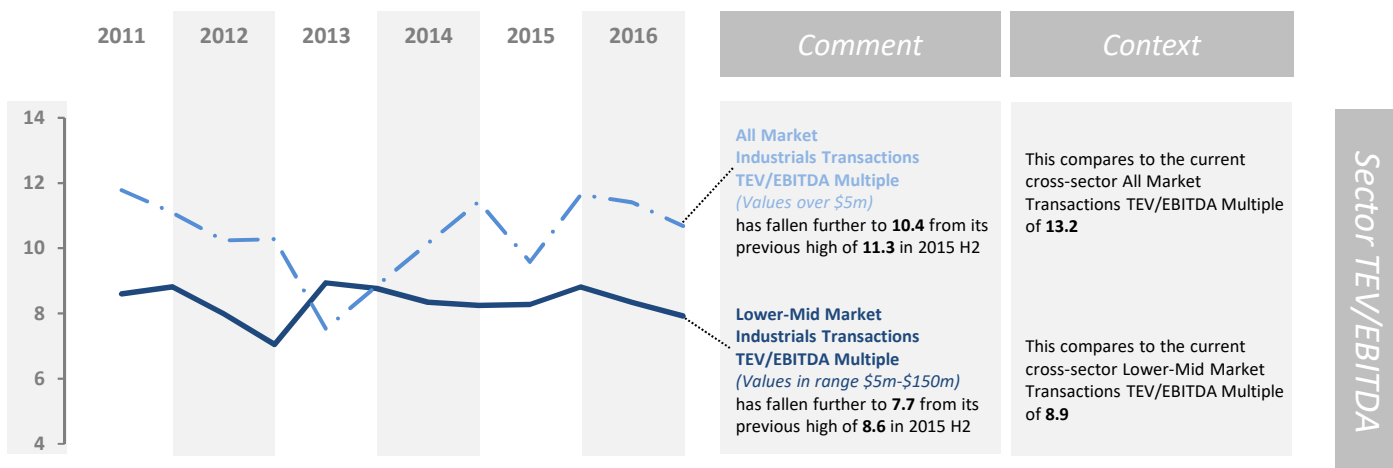


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# M&A trends & market analysis

The following data are compiled specifically for the Industrials sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data, and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid February 2017.



## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Services sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the increase in various internal reforms designed to help businesses capitalise as the global economy returns to growth. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### Market Rallies Despite Trump Appointment

Trump's pro-Industry stance has led US and UK main markets and indices to record highs. That said, the air of uncertainty surrounding the Trump administration's policy, coupled with uncertainty surrounding Brexit, means that some companies are waiting to see how the land lies later in the year.

#### Shipping Sector Pressure

Muted demand growth will exacerbate overcapacity for the shipping sector in 2017, putting pressure on freight rates and driving further consolidation and defaults, according to Fitch Ratings. M&A activity is expected to restore equilibrium and boost freight rates in the short to medium term.

#### Automation Becoming Key Aspect of Future Plans

Uber's autonomous trucking arm, Otto, completed its maiden voyage in October 2016. The delivery was for 50,000 cans of beer and was made in Colorado. This shows that autonomous vehicles, similar to those used in warehouses, could soon be on the world's roads

#### Digital's Effect on Marketing and Media

Technology and market research company Forrester forecasts digital media spending will increase to \$118bn by 2021, but it projects this spending will slow overall as marketers emphasize brand experiences over volume-based advertising strategies and budgets are reallocated to reflect this trend.

### Notable recent transactions

#### Eversheds Merger with Sutherland

The transatlantic merger between Eversheds and Sutherland Asbill & Brennan went live in February. Eversheds Sutherland – the new entity – will have 2,300 lawyers across 61 offices in 29 countries.

#### IBM Acquires Promontory Financial Group

IBM completed the acquisition of Promontory Financial Group, a global market-leading risk management and regulatory compliance consulting firm.

#### Marriott International Buys Starwood Hotels

Marriott International closed its \$13bn acquisition of Starwood Hotels & Resorts Worldwide, bringing together its Marriott, Courtyard and Ritz Carlton brands with Starwood's Sheraton, Westin, W and St. Regis properties.

### Lower-mid market observations

#### Recruitment Boom Caused by Technology

The increasing presence of technology in the workplace across all sectors has led to a flurry of recruitment activity. Furthermore, it has led to a raft of new firms set up catering only to the tech space.

#### Business Process Outsourcing

As companies increasingly outsource routine functions, the role of HR talent is changing. In 2017, many companies will begin to recruit individuals with specific technology-driven talents, including HR analytics, data analysts, and marketing talent.

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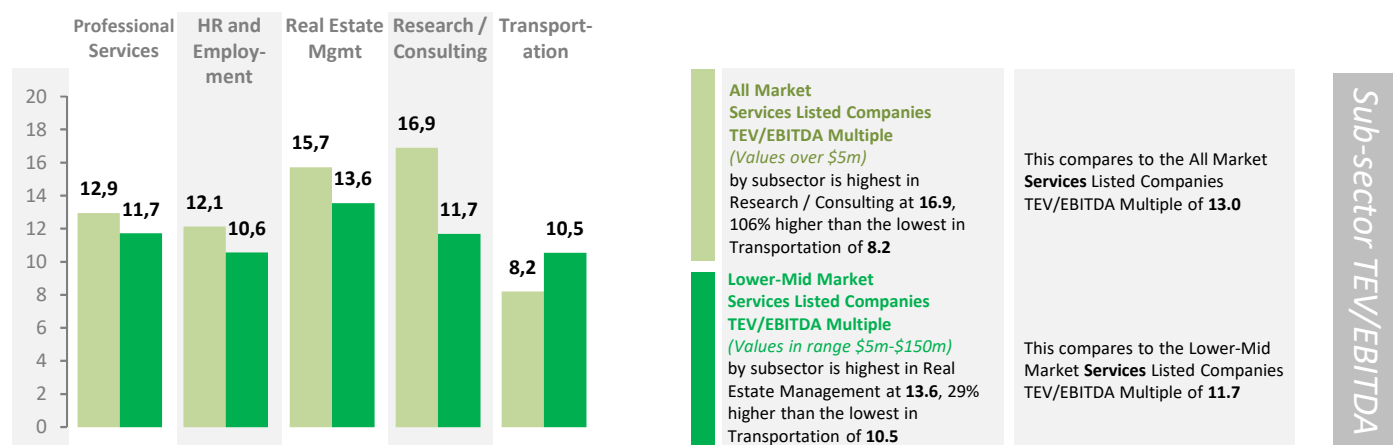
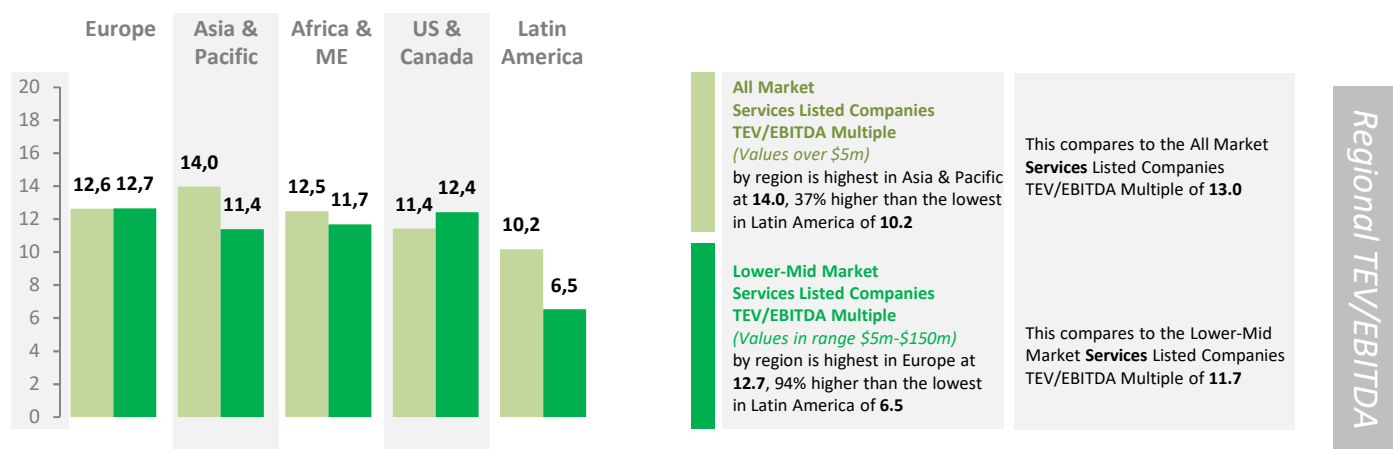
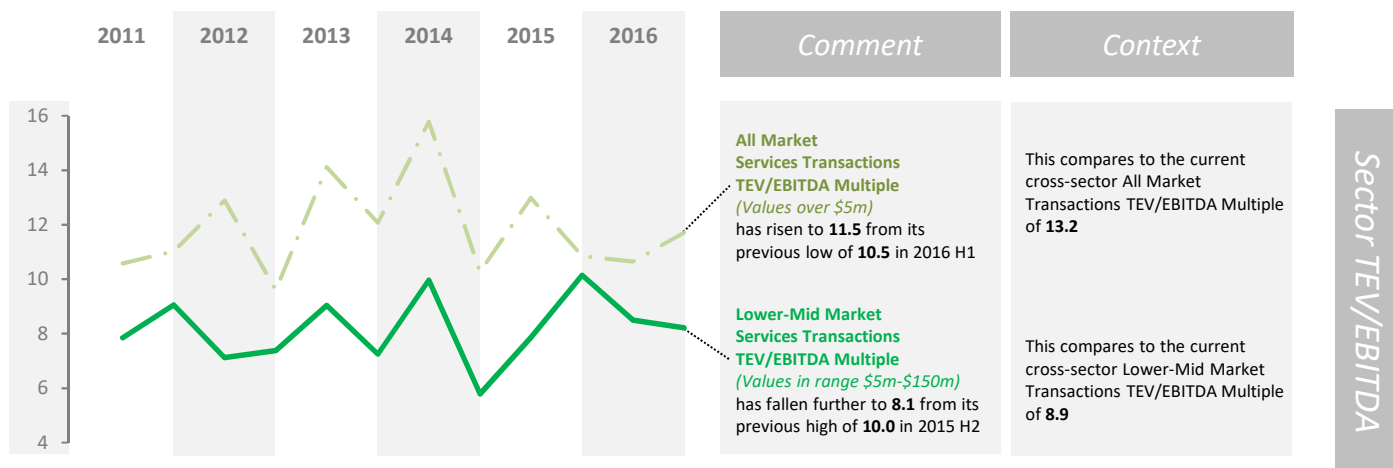


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# M&A trends & market analysis

The following data are compiled specifically for the Services sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data, and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid February 2017.



## The sector M&A landscape

During the Milan 2017 Globalscope conference, the network's global Technology, Media & Telecoms (TMT) sector team met to discuss recent transactions and the evolving underlying structural drivers of the global sector M&A landscape.

A key theme is the potential of AI and machine learning to become more commonplace in day-to-day life. More details can be obtained from team members or regional heads – see contact details below.

### Sector themes

#### China to Grow

China's TMT M&A deals overseas grew by a CAGR of 27% from 2012 to 2016, far exceeding North America, Europe and other regions, and is expected to grow steadily in 2017 as Chinese tech companies try to acquire foreign high-tech and realize their globalization strategies, according to Deloitte.

#### OTT and "Skinny Bundles"

Google's launch of YouTube TV, alongside the continual growth of over-the-top (OTT) content providers such as Netflix and Amazon, has led to a growth of pared-down, less costly subscriptions. Some commentators believe TV's days are numbered.

#### AI & Machine Learning

The world's biggest internet companies, including Google, Facebook and IBM, are investing heavily in AI-based tech – this is set to continue at an increasing rate. 2017 has already seen Amazon buy data security firm harvest.ai for \$20m, and Baidu acquire AI voice assistant platform Raven Tech.

#### Telecoms

The telecoms industry is enjoying unprecedented demand for network services, as mobile data demand grows globally, paving the way for new markets such as Internet of Things (IoT).

### Notable recent transactions

#### Intel to acquire Mobileye

Leading integrated chip manufacturer Intel has announced its intention to acquire Mobileye for \$15.4bn, to create one of the world's leading suppliers of autonomous driving systems. This acquisition accelerates Intel's diversification away from traditional PC and server chipsets.

#### Cisco pre-empts AppDynamics IPO

Cisco has snapped up application performance monitoring software vendor AppDynamics for \$3.7bn, moments before its long-awaited IPO. For Cisco, the deal represents further efforts to provide enterprises with a holistic view of their network.

### Lower-mid market observations

#### Activation of Virtual Technologies

The expanding presence of augmented reality (AR) and virtual reality (VR) represents a spirited vision for mid-market businesses. Mid-sized firms are aggressively competing alongside bigger players to deliver their products in a more tangible and experiential manner than ever before.

#### Cybersecurity

Mergers and acquisitions will soar over the next 12 months, as companies in a wide array of industries seek to improve efficiency in business processes and increase protection against cyberattacks.

#### CenturyLink to buy Level 3 Communications

CenturyLink is acquiring internet service provider Level 3 Communications in a deal valued at \$34bn, which will extend CenturyLink's proprietary fiber network by 200,000 miles.

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# M&A trends & market analysis

The following data are compiled specifically for the TMT sector, with valuation trends over time in the first chart based on semi-annually averaged transactional data and regional and sub-sector comparisons in the second and third charts based on listed companies data as at mid February 2017.

