H2 2017

global ACQUIRER TRENDS

CONTENTS

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EXECUTIVE SUMMARY

by Steve Miles
Partner, Chicago

“Looking at the strong fundamentals for midcap M&A in most of the markets in which we operate, we see many reasons for optimism.”

Perhaps the most remarkable thing about the second half of 2017 was that most of the global economic news stayed positive. The American, German, UK and Swedish economies all continued to grow, and Spain began to shrug off its long recession.

Despite Catalan separatism in Spain, the United Kingdom’s continuing crisis over Brexit, the inconclusive German election, the rise of the alt-right in Austria and Germany, the Korean nuclear standoff, and an unsettled and deeply polarized US political landscape, midcap merger and acquisition transaction volumes stayed strong worldwide. Overall, H2 2017 was a strong half for M&A activity.

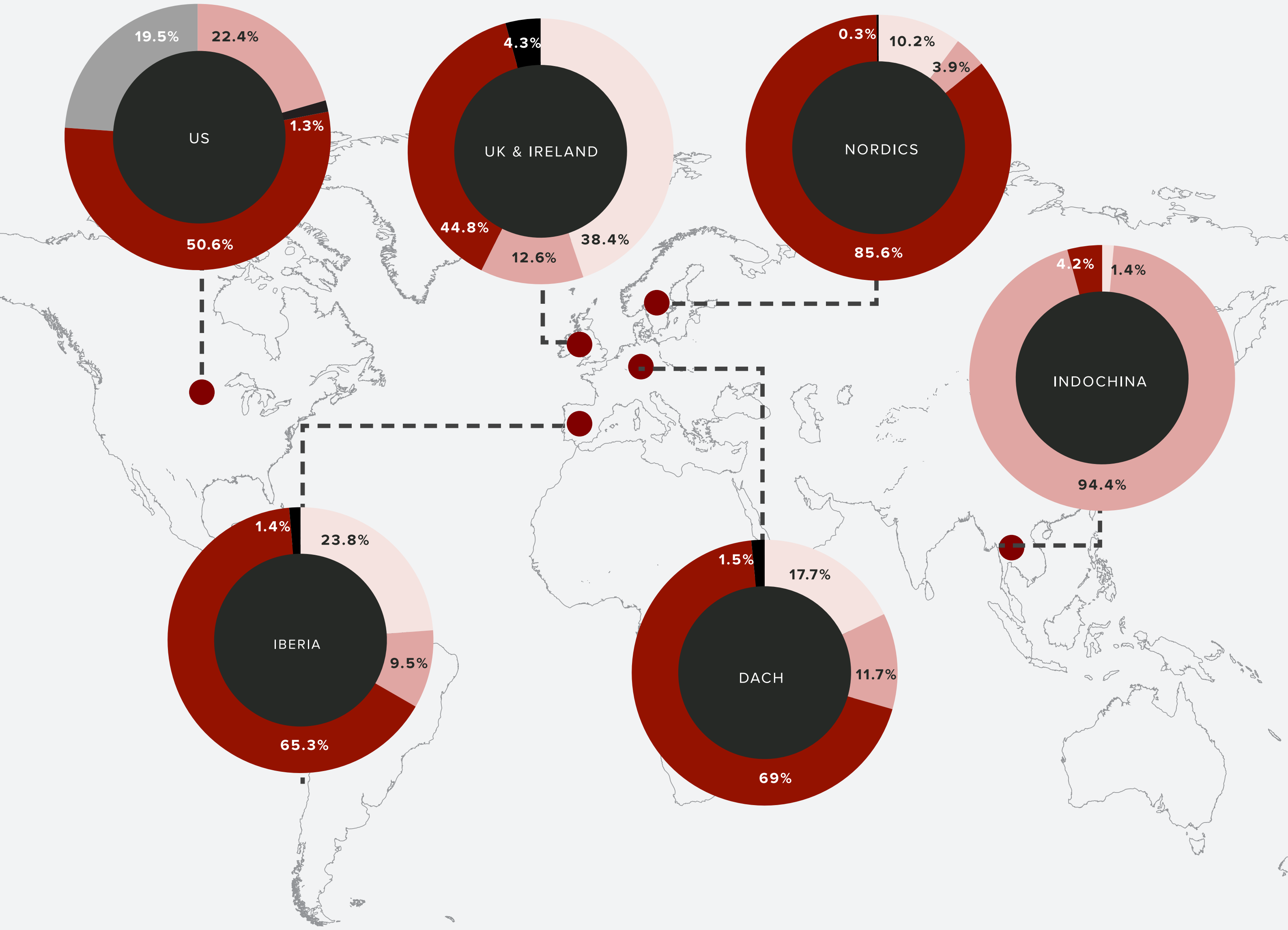
In the Americas (predominantly the US), domestic deal volume rose sharply from 2,000 in H1 to 3,065 in H2. Overseas in-bound interest also grew, as the number of deals increased from 547 to 735. Of that overseas money, nearly half (354 deals) involved European buyers, up from 222 in H1.

In Europe, Nordic deals climbed to 645 from 454, reflecting strong fundamentals in the north. Perhaps surprisingly given the uncertainty around Brexit, deals in the UK and Ireland rose to 907 from 780. The Spanish and DACH markets also stayed active.

Despite January’s stock market scare, we remain optimistic about the 2018 outlook for middle-market M&A. In addition to low unemployment and other strong economic fundamentals, several other drivers favor midcaps as well:

- The much-lauded ‘synchronicity’ of the world’s key economies – the US, Europe and China – as they all experience significant, and seemingly sustained, GDP growth.
- Private equity buyers are competing for a limited number of assets, which should keep driving asset values higher – particularly as the number of PE-backed companies has been growing 30% per year since 2011.
- For a variety of reasons, IPOs have become less popular in recent years as late-stage startups turn more frequently to the private capital market.
- The passage of the US tax reform bill in December may repatriate billions in offshore corporate cash, which may add as much as $1 trillion to the nearly $2 trillion US corporate cash horde. At the same time, the unintended side effects of some hastily written provisions, particularly regarding depreciation in real estate, may encourage more direct investment in assets than renovations and plant upgrades.
- Finally, the US administration’s encouragement of a weak dollar may put US assets at a discount to foreign buyers even as it further encourages domestic companies to buy American.

None of this is to discount the possibility of a geopolitical or macroeconomic crisis – the market’s renewed volatility is a timely reminder that sentiment can change quickly – but looking at the strong fundamentals for midcap M&A in most of the markets in which we operate, we see many reasons for optimism.



Where are the buyers coming from?

The charts show the percentage of inbound M&A in H2 2017 by region

Americas
Asia & Australia
Canada & South America
Europe
Middle East & Africa

Global M&A trends

GEOGRAPHIC **PERSPECTIVES**

"A notable deal for us in the half was Inflexion Private Equity's buyout of the sports media and technology company Alston Elliot."

UK & IRELAND

Jeremy Furniss has specialized in M&A in the public and private company arena for over 22 years and leads the UK's Business Services sector team.

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Despite continuing uncertainty over Brexit and the survival of the May government following the 2017 general election, the UK and Ireland remained the biggest M&A game in Europe, and stayed close to near-record levels in H2.

Acquirers continued to pay a premium for high-quality assets as they embraced a market that remains an economic powerhouse, despite political uncertainty. At the same time, the strong potential for a left-leaning UK government to raise capital gains taxes gave vendors an enhanced sense of urgency to explore their options in the near future.

A notable deal for us in the half was **Inflexion Private Equity**'s buyout of the sports media and technology company **Alston Elliot**. The managers of **Law Business Research**, an expert provider of research, news, data and insight on international business law and legal markets, also turned to us to advise them on their secondary management buy-out backed by Levine Leichtman Capital Partners.

Other significant UK transactions included the £4.2 billion sale of multi-channel bookmaking and gaming company Ladbrokes Coral Plc to UK-based multinational sports betting and gaming group GVC Holdings Plc, and the £6 billion acquisition of the Spreads business of consumer goods company Unilever Plc by US-based global investment firm Kohlberg Kravis Roberts & Co. L.P.

Looking into 2018, strong global GDP growth, an abundance of available capital, an open M&A market and the UK's ability to generate exciting world-class companies continue to provide reason for optimism.

Key sectors
Activity was strongest in the business services sector with 362 transactions, followed by media & technology (210), consumer (160) and industrials (128). Overall, in spite of anti-globalization hype, cross-border interest stayed strong, with inbound deals representing 46.5% of all transactions.

NORDICS

Thomas Karlsson is co-founder of Livingstone's Swedish operations and has 20 years of experience. He leads Sweden's Consumer sector team.

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The Nordic markets punched above their weight again in H2 2017 with the second-highest number of deals in Europe, right behind the UK and Ireland, despite being a fraction of the size of the Anglo-Irish market.

One of Livingstone's noteworthy international deals in the Nordics was the sale of **Swedish Oat Fiber,** a leading manufacturer of oat-based products such as dietary fiber and proteins, to France-based Naturex, global specialist in natural ingredients. We also advised online retailer **Golvpoolen** on its sale to the Nordic building products group Bygghemma, in turn owned by Private Equity firm FSN Capital.

Other notable industry transactions included the €724 million sale of Nordic business support services group Lindorff to UK-based credit management services provider Lowell Group, and the €906 million acquisition of Finnish building supplier Paroc Group Oy by Owens Corning, a US-based producer of glass fiber reinforcements.

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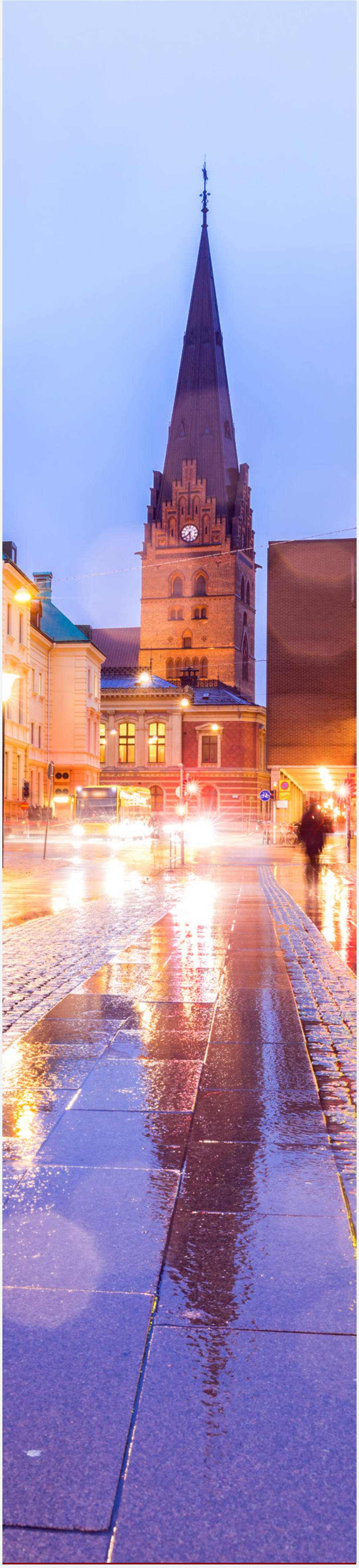
Sweden's strong IPO market continued to offer investors an attractive alternative to mid-cap M&A in 2017. However, we are starting to see signs that the IPO window may be closing soon, a shift that should push up M&A volumes in 2018. Another factor speaking for growing volumes is the growing need for consolidation in sectors like e-commerce. Continued global economic strength will also power M&A activity in industrial production.

Key sectors

The top-performing sector in H2 was business services with 229 transactions, followed by industrials (180), media & technology (121) and consumer (78). Total deals reached 645, significantly higher than H1's total of 454. One reason for this increase was the growth of foreign investment, as inbound deal volumes climbed sharply to 59% in H2, up from 43% in H1.



Iberian Peninsula

Neil Collen has more than 24 years of experience in M&A transactions. He is responsible for the Business Services and Consumer sector teams in Spain.

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Spain is back. After a lost decade, the Spanish economy is finally back on track, led by a class of lean companies hardened by tough times and eager to grow. Healthy and growing, the Spanish economy is looking once more like a source of opportunity, and many firms are now attracting the attention of international buyers.

A number of sellers also see this as a special moment. For a generation of founders who struggled through a long and difficult decade, this year may represent their best window of opportunity to sell rather than remain through another business cycle.

Two of our top deals included the sale of **Keraben Grupo SA**, a leading manufacturer of branded floor and wall ceramic tiles, to global manufacturer Victoria PLC, and advising **ETEX**, a global Belgium industrial group, in the acquisition of all the outstanding shares of Pladur Gypsum, S.A.

Other notable industry transactions included the €220 million sale of computer services company Itconic to Equinix, Inc., a US-based provider of network neutral data center and interconnection services, and the €257 million acquisition of packaging products and systems manufacturer Santos Barosa – Vidros, S.A. to Vidrala, S.A., a Spain-based manufacturer and distributor of glass bottles and containers.

Key sectors
Business services deals topped the lists in H2 with 105 completed transactions, followed by consumer (71) and industrials (51). Overall, total deals have climbed to 286 in H2 from 231 in H1, and inbound interest has held steady at just over 51%.

“Healthy and growing, the Spanish economy is looking once more like a source of opportunity, and many firms are now attracting the attention of international buyers.”

“Looking forward into 2018, unemployment and interest rates are expected to stay low, and growth is expected to continue. We also anticipate a relaxation of the foreign investment rules in China now that the currency is firmly under control.”

China

Following his studies of Political Science in China, Baoshan Bao joined Livingstone in 2011 and leads transactions in the Chinese region.

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For years, people have predicted a downturn for China, but it still hasn’t materialized. China stayed lively in H2, despite increased efforts by Chinese regulators to carefully manage international transactions.

We completed our fourth significant transaction in three years when we advised on the sale of the German company **SieMatic**, a leading global manufacturer of premium kitchen furniture, to Nison Group.

Other notable industry transactions included the ¥6.7 billion sale of computer software, internet and e-commerce company Musical.ly Inc. to Beijing Byte Beating Technology Co., Ltd, a Chinese-based individualized information recommendation engine provider, and the ¥1.97 billion sale of pharmaceuticals company Therapure Biopharma Inc. to a Joint Venture of CITIC Private Equity Funds Management Co., Ltd. and the pharmaceutical company 3SBio Inc. quoted in Hong Kong.

Looking forward into 2018, unemployment and interest rates are expected to stay low, and growth is expected to continue. We also anticipate a relaxation of the foreign investment rules in China now that the currency is firmly under control. These solid macro-fundamentals, plus cash-rich strategic investors and private equity firms, suggest optimism for the coming year.

Key sectors
Business services led transaction volume in H2 with 68 transactions. Media & technology came in second (45), followed by industrials (31). Domestic deals continued to dominate with 59% of deal volume in H2, compared to 64% in H1.

"H2 was a positive time for the economy in general, and the midcap M&A market in particular. Deal volumes rose sharply from H1 to H2, with domestic demand continuing to make up 75% of deal volume."

AMERICAS

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With economic growth fueling M&A, the US has seen an increase in both the volume and average size of its deals. H2 was a positive time for the economy in general, and the midcap M&A market in particular. Deal volumes rose sharply from H1 to H2, with domestic demand continuing to make up 75% of deal volume.

As the US economy has expanded slowly but steadily over the last decade, many corporate and strategic buyers have sought acquisitions to bypass this slower-moving pace and supercharge growth. This has caused well-financed private equity sponsors, who are competing with growth-hungry strategics for a relatively limited number of assets, to push valuations for grade A assets – as well as seller expectations – to near record levels.

Two significant deals for us in the second half of the year included **Apache Hose and Belting Company**'s sale to Motion Industries, Inc. and **Tennessee Valley Recycling**'s sale to SA Recycling.

Other notable industry transactions included the sale of Orbital ATK, Inc., an aerospace and defense aircraft and parts manufacturer, to US-based aerospace, defense and technology company Northrop Grumman Corporation for $9.4 billion, and the $1.67 billion sale of Royal Adhesives & Sealants, LLC, a chemicals and materials manufacturer, to H.B. Fuller Company, a US-based formulator, manufacturer and marketer of adhesives, sealants and other specialty chemical products.

Looking to 2018, we see a number of positives. Compared with last year, the market is feeling less uncertainty at the moment: the tax reform vote is over – and if the past is prologue, no one will take it up again for decades. Populist bluster against NAFTA hasn't turned into actual law; unemployment remains low and consumers are optimistic; and many companies are looking into digital transformation.

Key sectors

The most active sector in this half was business services (1,066 deals), followed by media & technology (728), industrials (633), consumer (377) and healthcare (261). However, for Livingstone, industrials remained our core strength.

DACH Region

Christian Grandin is co-founder of Livingstone's office in Germany and has over 20 years of experience. He leads the Consumer sector team from Düsseldorf.

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Although the M&A market in H2 fell slightly from H1, it was still quite robust, with just under 500 completed transactions. Unemployment was at its lowest since reunification and growth is still strong, making Germany very attractive to many investors. In addition, a skills shortage developed, driving M&A activity as companies acquired skilled employees through acquisitions. At the same time, interest rates remained low, and some businesses with strong cash positions chose to invest rather than see their money eroded by inflation.

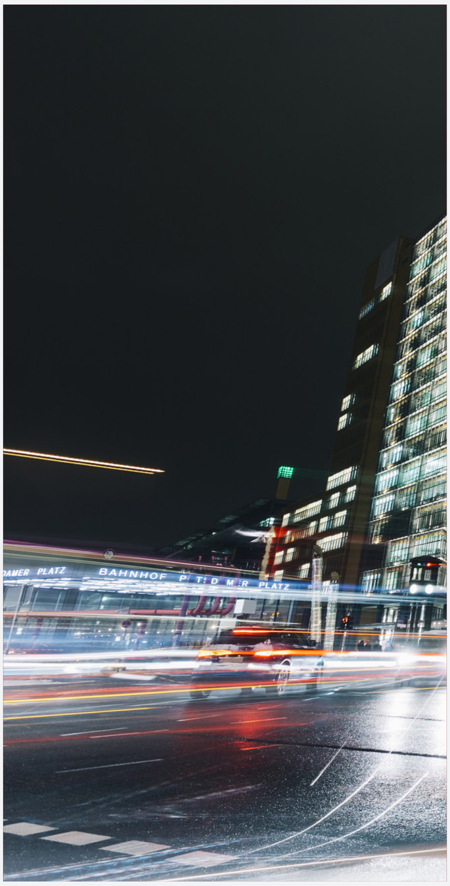
Two of our notable deals in H2 included advising **ic! Berlin**, a fashionable eyewear company, on a succession solution and significant investment by the German financial investor PREMIUM Equity Partners, and **Eat-the-World**, the pioneer and market leader for guided culinary walking tours in Germany, on its sale to Gruner+Jahr GmbH & Co. KG.

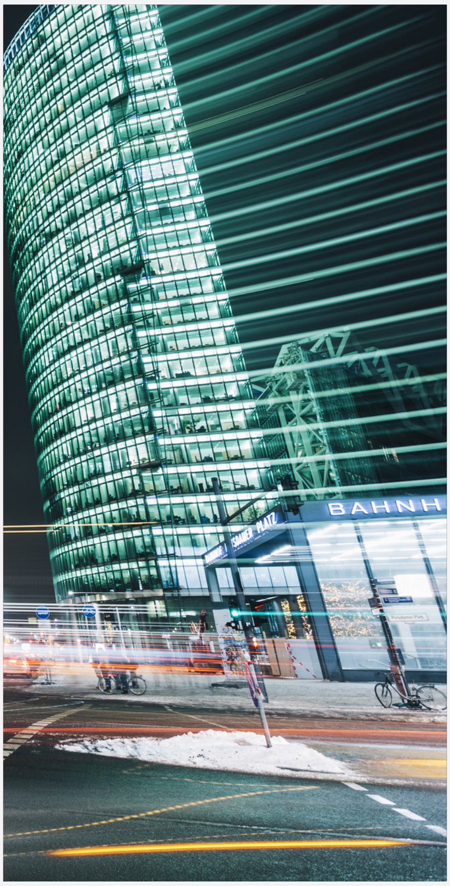
Other notable industry transactions included the €1.5 billion sale of automotive components manufacturer STAHLGRUBER GmbH to a US-based provider of recycled light vehicle products, LKQ Corporation, Inc., and the €5.97 billion acquisition of agricultural, biotechnology and chemicals provider Bayer AG by Germany-based chemicals company BASF SE.

Looking forward, there are promising signs for the coming year, with no reason to foresee a slowdown as economic indicators remain positive. As long as interest rates and unemployment remain low, and private equity and strategic investors have money to spend, owners should be able to sell under favorable terms. And with Angela Merkel in power for another four years, and the possibility that Frankfurt will become an even more important financial hub if Brexit goes through, investors are finding a lot to like in Germany and the DACH region as a whole.

Key sectors
Our top sectors in H2 were industrials with 180 transactions, followed by business services (130) and media & technology (90). Inbound deal volumes dipped from 58.8% in H1 to 49.8% in H2, as we saw an increase in domestic deals during the second half of the year.

"As long as interest rates and unemployment remain low, and private equity and strategic investors have money to spend, owners should be able to sell under favorable terms."





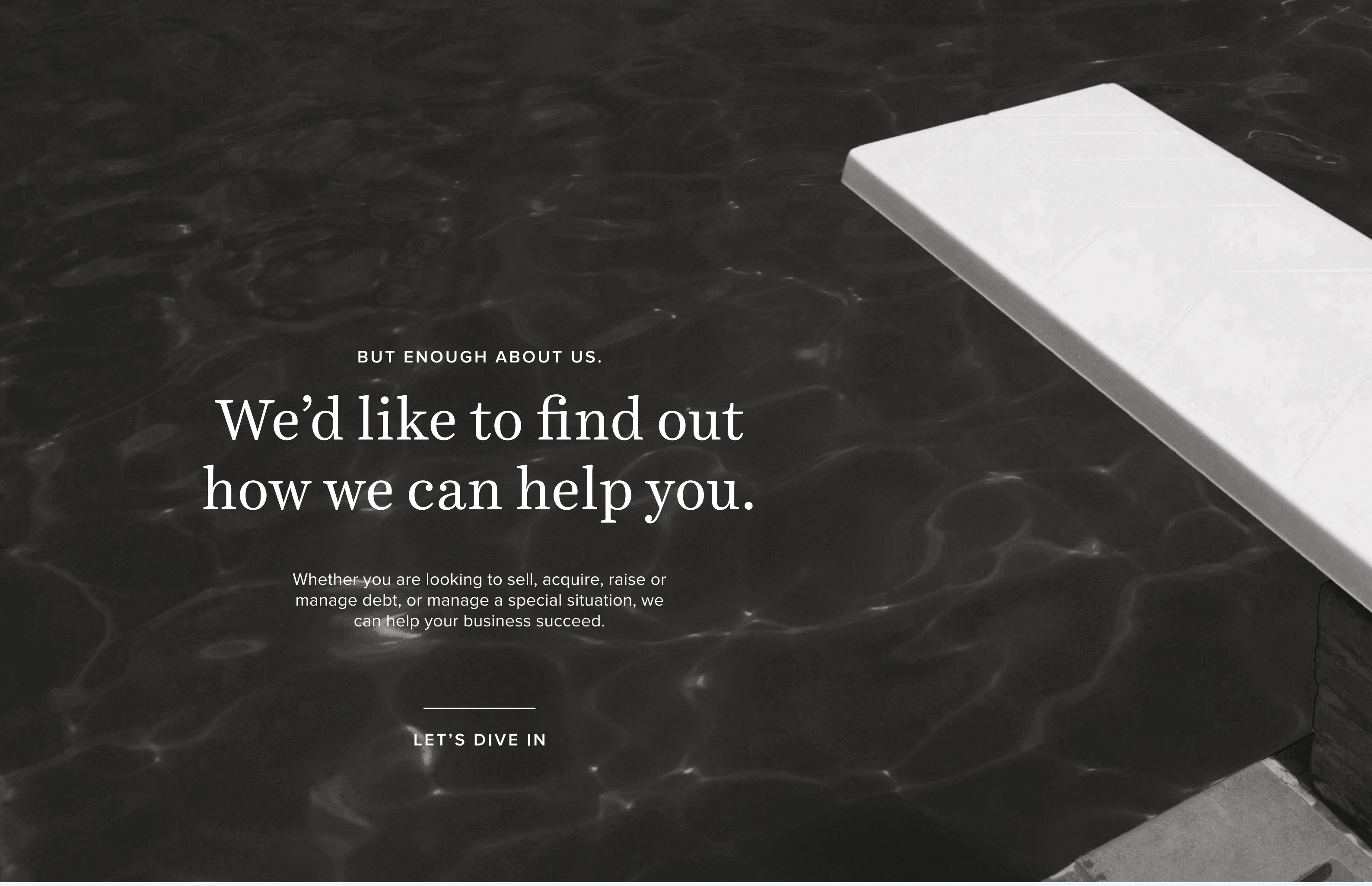
WE DON'T JUST GET DEALS DONE, WE GET...

deals done right.

WE'VE CLOSED HUNDREDS OF TRANSACTIONS ALL OVER THE WORLD.

WE FINISH WHAT WE START. IN A VOLATILE DEAL MARKET, GETTING TO THE FINISH ISN'T ALWAYS STRAIGHTFORWARD.

YOUR BUSINESS IS UNIQUE, AND AS A RESULT, SO IS OUR PROCESS. OUR SOLUTION IS NOT ONE SIZE FITS ALL.



BUT ENOUGH ABOUT US.

We'd like to find out how we can help you.

Whether you are looking to sell, acquire, raise or manage debt, or manage a special situation, we can help your business succeed.

LET'S DIVE IN

Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, London, Los Angeles, Madrid and Stockholm.

We focus on five core industries, with dedicated teams across our offices serving the Business Services, Consumer, Healthcare, Industrial and Media & Technology sectors, drawing from our experience of closing over 950 transactions.

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DEALS DONE RIGHT.