PitchBook

M&A Report

1Q 2018

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Contents

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Key takeaways from the analysts

- After a strong 2017, M&A activity got off to a sluggish start in the first quarter of this year. Across North America and Europe, 4,867 deals were completed in 1Q 2018, totaling $616.7 billion in value—18% and 25% year-over-year decreases, respectively.

- Though the pace of completed corporate divestitures was rather slow in 1Q 2018, 463 divestitures totaling $149.0 billion have been announced but have yet to close. We expect divestiture activity to increase during the remainder of the year, as companies look to slim down after the recent buying binge.

- B2C transactions accounted for just 15.9% of deal flow in 1Q 2018. Interest in traditional B2C assets has dwindled as tech-focused firms continue to make their mark on consumer-facing businesses. Further, businesses that were once thought of as traditional B2C, such as retail, are now created as tech-focused ecommerce firms.

$616.7B
total value across North America and Europe in 1Q

$149.0B
total value of announced divestitures

15.9%
of total deal flow in B2C, a slow start relative to prior full-year tallies

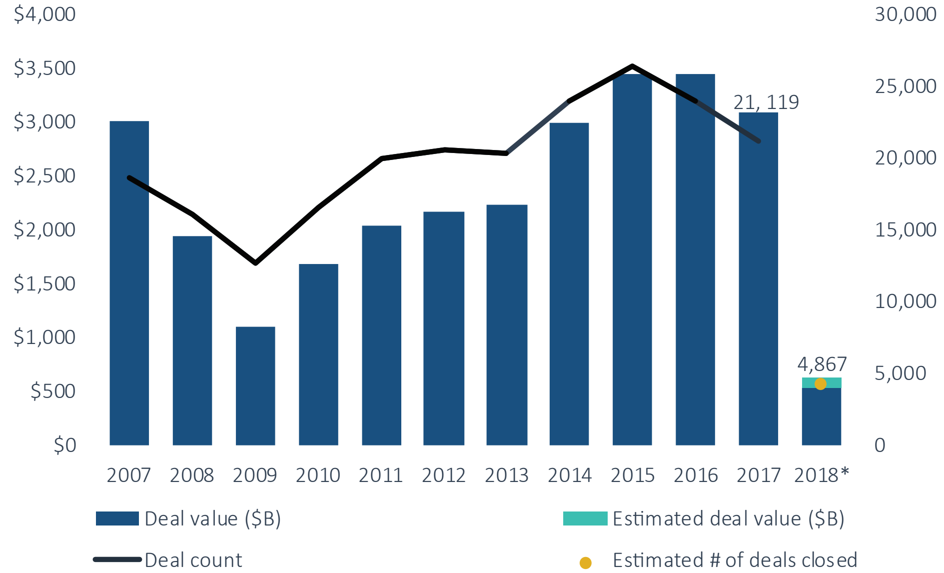
Overview

Completed deals stall, but announced transactions point to uptick

After a strong 2017, M&A activity got off to a sluggish start in the first quarter of this year. Across North America and Europe, 4,867 deals were completed in 1Q 2018, totaling $616.7 billion in value—18% and 25% YoY decreases, respectively. Though completed deal count slid substantially, an additional 973 deals totaling an estimated $451.3 billion have been announced but have yet to close. On that account, combined with the knock-on effects of corporate tax cuts in the US and a relatively stable European economy, we expect completed deal flow to increase through the remainder of the year. Notable transactions announced in the first quarter include Keurig Green Mountain's $23 billion take-private of Dr Pepper Snapple Group and Blackstone's $17 billion carveout of

Deal count continued to slide in 1Q

M&A activity in North America & Europe



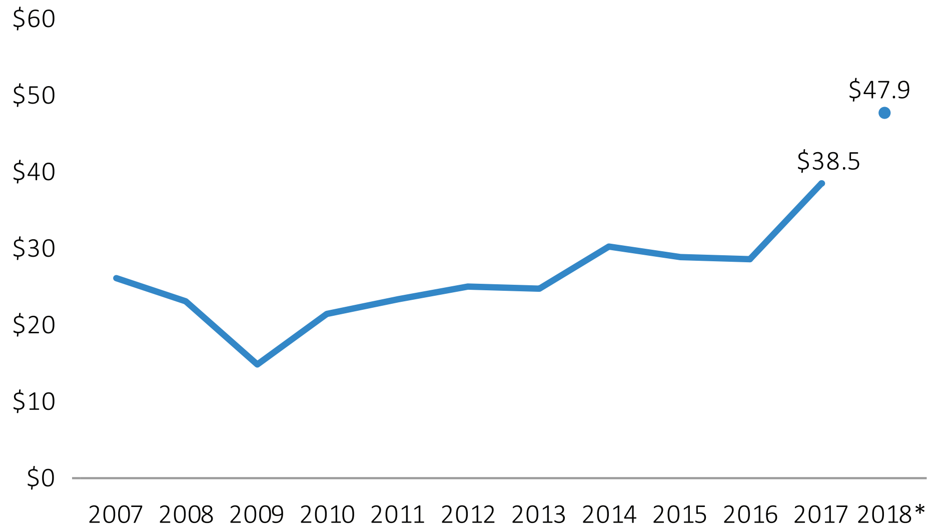
Source: PitchBook
*As of March 31, 2018

Thomson Reuters' financial and risk business. Both transactions reflect two prominent themes in today's M&A landscape the growing influence of private equity and the interplay between public and private markets.

The IT and B2B sectors saw their shares of M&A activity increase in 1Q, accounting for 19.5% and 38.6% of completed transactions, respectively. The IT sector continues to play a more prominent role for strategic and financial acquirers alike, commanding a greater share of both deal flow and capital invested. Fast-changing technology continues to pose a threat to existing business models, forcing incumbents to either ramp up R&D or to acquire more nimble competitors. In addition, IT companies are increasingly being acquired by businesses in non-tech sectors, accounting for 45.4% of deal flow. Meanwhile, B2C transactions accounted for just 15.9% of deal flow in 1Q 2018. Interest in traditional B2C assets has dwindled as tech-focused firms continue making inroads into consumer-facing segments. Further, businesses that were once thought of as being traditional B2C, such as retail, are now created as tech-focused ecommerce firms.

Median deal size remains historically high

Median M&A deal size ($M) in North America & Europe

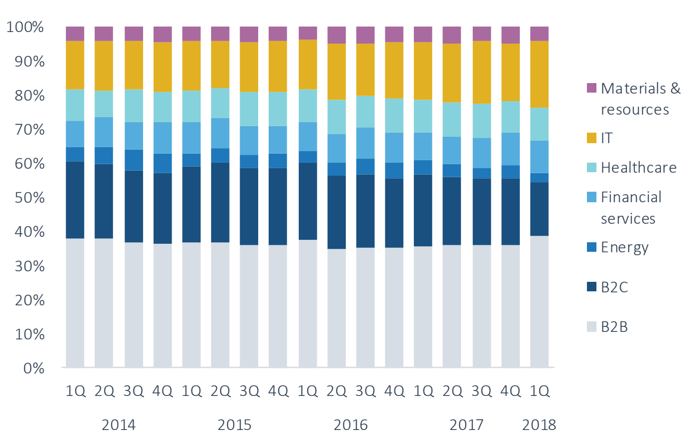


Source: PitchBook
*As of March 31, 2018

The number of intercontinental M&A deals has also trended upward in the last decade, particularly in Europe. In 1Q 2018, 13.6% of European M&A transactions involved a non-European buyer—having increased from last decade's nadir of 9.0% in 2009. By contrast, the proportion of North American transactions with an acquirer from another continent has grown more slowly, from 6.4% in 2009 to 8.2% in 1Q 2018. Intercontinental activity in Europe is higher due in part to the prevalence of North American buyers, particularly US-based PE firms and Canadian LPs executing direct investments, with substantial operations across the Atlantic. On the other hand, European investors have traditionally exhibited a propensity to invest close to home. Nonetheless, both regions have seen an increase in activity from foreign buyers, partially driven by the fact that such acquisitions serve as an efficient way to expand a company's footprint in today's global economy.

B2C clout continues to shrink

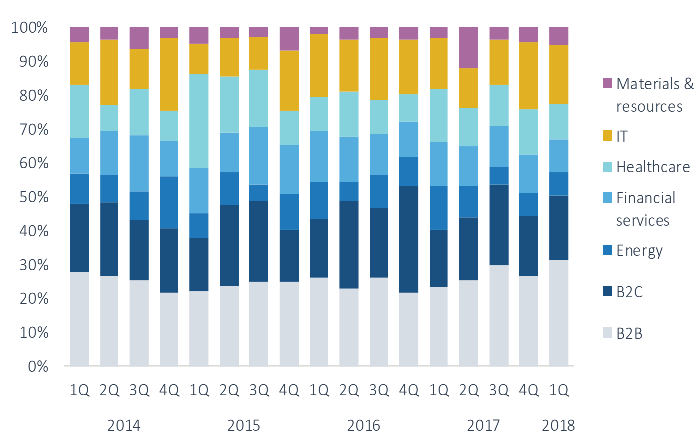
M&A (#) by sector in North America & Europe



Source: PitchBook

B2B commands a growing share of capital

M&A ($) by sector in North America & Europe



Source: PitchBook

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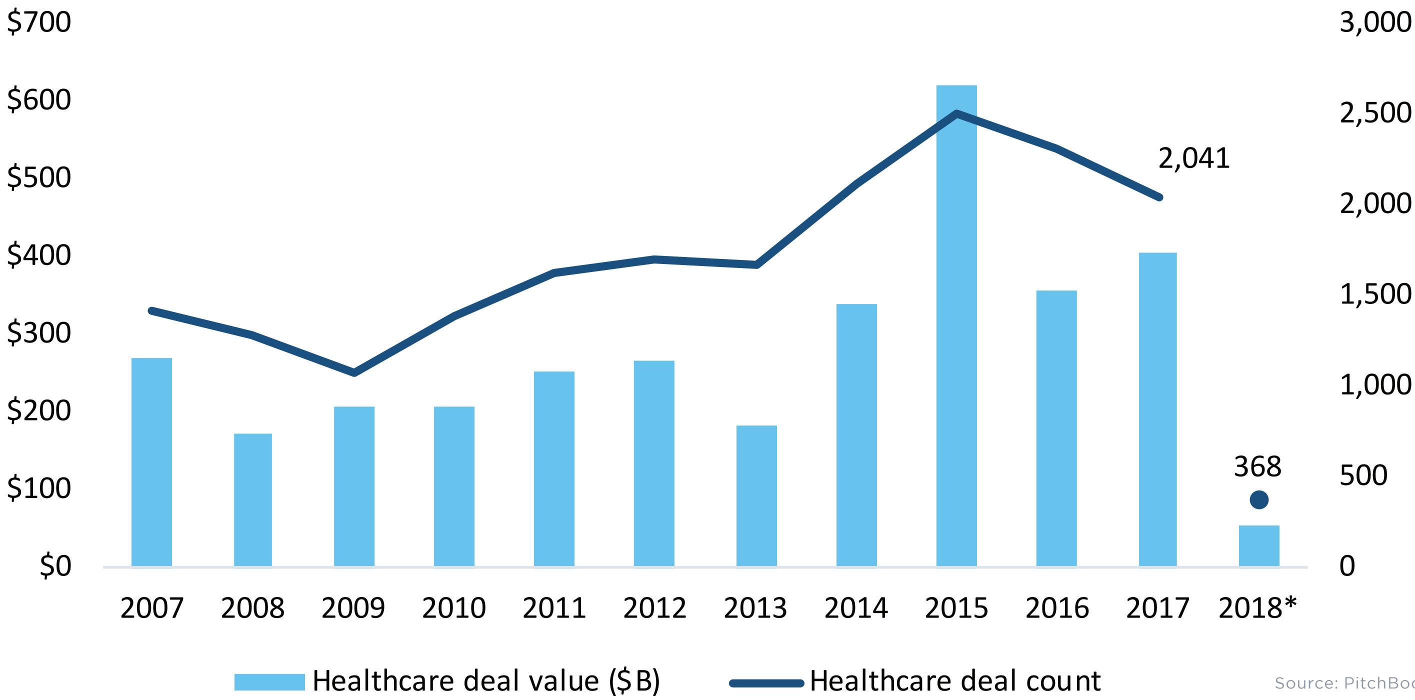
Spotlight: Healthcare

Set for a slower 2018

Healthcare M&A activity



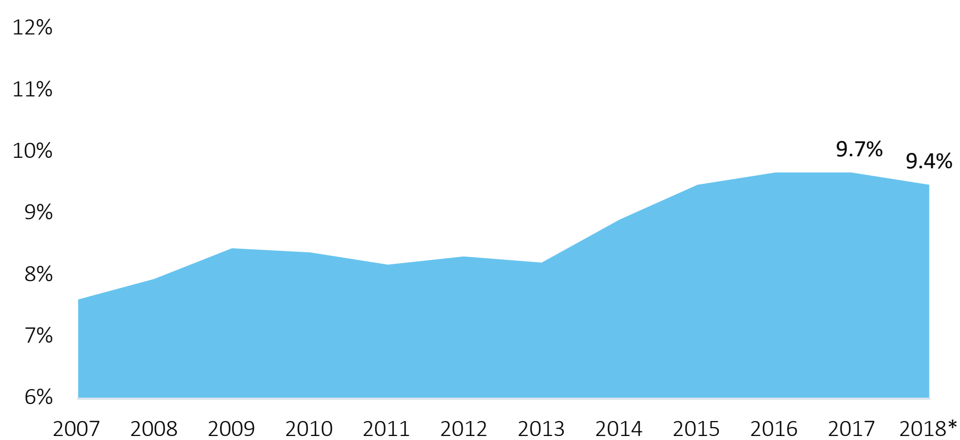
Source: PitchBook
*As of March 31, 2018

Following a record-setting year in 2015, healthcare M&A dwindled for two consecutive years and is on pace for a slower 2018. 368 deals were completed, accounting for 9.4% of M&A deals, pacing behind last year's tally of 9.7%, and totaling $53.5 billion in 1Q 2018. Deals have historically been larger in this space than in the broader market. The median healthcare deal size was $54.6 million in 2017, compared to $38.5 million across all sectors, though this trend reversed in the first quarter of this year.

A year ago, healthcare dealmakers were consumed by the possibility of changes to, or the elimination of, the US Affordable Care Act—a prospect that seems less likely for the time being.

Healthcare has accounted for a higher proportion of M&A volume in recent years

Healthcare (#) as % of total M&A activity



Source: PitchBook
*As of March 31, 2018

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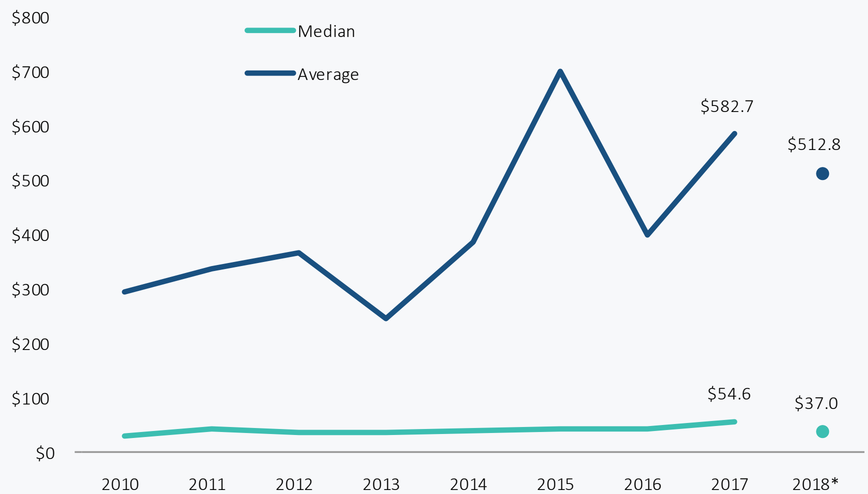
SPOTLIGHT: HEALTHCARE

Today, dealmakers are less focused on public policy and more attuned to the shifting competitive landscape, including the recently announced partnership among Amazon, Berkshire Hathaway and JP Morgan Chase. According to their recent press release, the trio will attempt to provide healthcare benefits to their own employees through "an independent healthcare company that is free from profit-making incentives and constraints." Though few details are known about the partnership, it will certainly influence other firms in the space—from insurers and pharmacy benefit managers to biotech and pharmaceutical companies—and could be a harbinger of more strategic jockeying in the coming years as firms look to hedge their bets or forge partnerships of their own.

Healthcare transaction sizes have grown in tandem with overall deal metrics

Median & average healthcare M&A deal size ($M)



Source: PitchBook
*As of March 31, 2018

Even without large partnerships threatening to take intermediaries out of the healthcare supply chain, industry players have plenty of obstacles to overcome. Regulatory changes in major markets remain possible, which could change anything from drug approval timelines to reimbursement processes. In addition, gene therapy, robotics and machine learning could permanently challenge the competitive landscape. Another factor that could upend the healthcare supply chain is the strong demand shown by financial sponsors. Healthcare companies—particularly fragmented retail healthcare, such as dental offices and urgent-care clinics—are the most common add-on targets for PE firms.

Top 5 healthcare deals of 2018

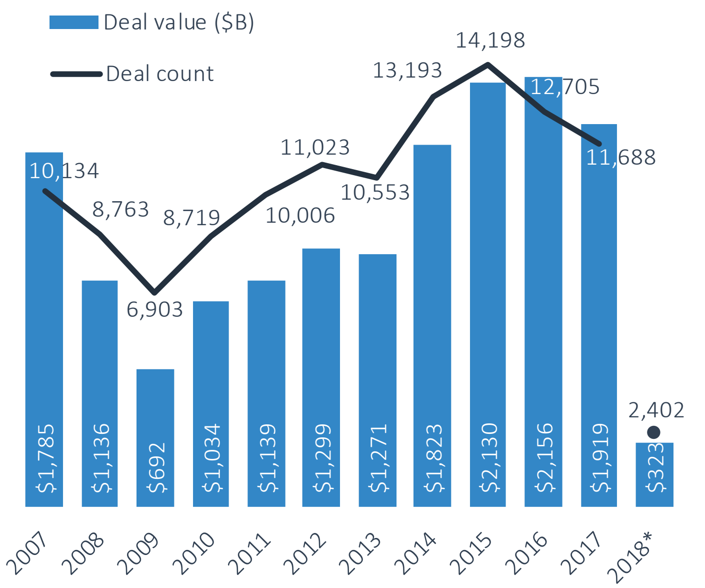
Acquired company	Date	Deal size ($M)	Industry
American Medical Response	March 14, 2018	$2,400	Other healthcare services
U.S. HealthWorks	February 1, 2018	$753	Clinics/outpatient services
Oklahoma University Medical Center	February 1, 2018	$750	Hospitals/Inpatient services
RxCrossroads	January 3, 2018	$735	Other healthcare services
The Medicines Company Infectious Disease Care Group	January 8, 2018	$270	Drug discovery

Source: PitchBook
*As of March 31, 2018

Deals by Region & Size

Off to a slower pace than in past years

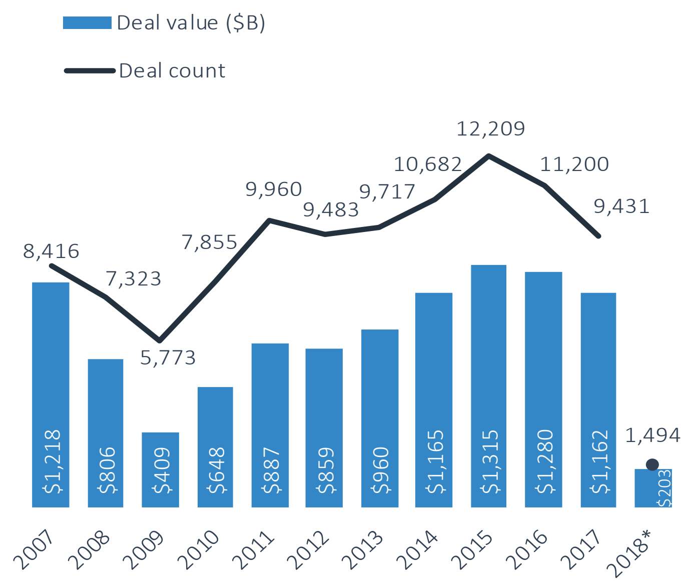
M&A activity in North America



Source: PitchBook
*As of March 31, 2018

European volume at a slow start to 2018

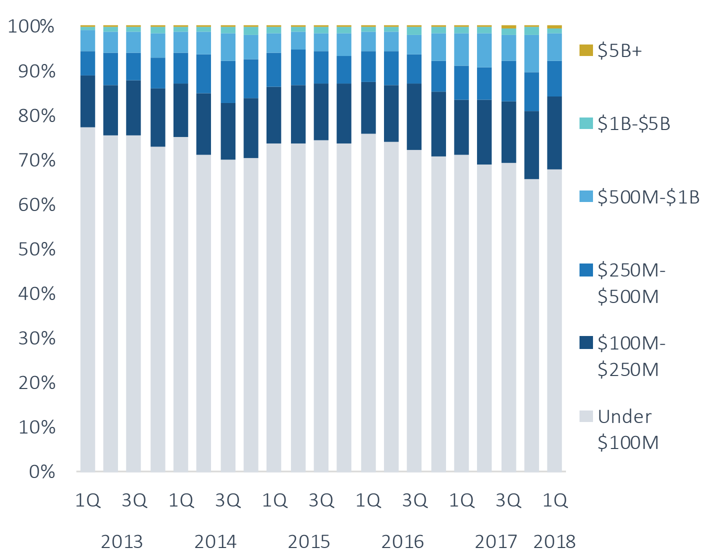
M&A activity in Europe



Source: PitchBook
*As of March 31, 2018

The trend toward larger deals continues

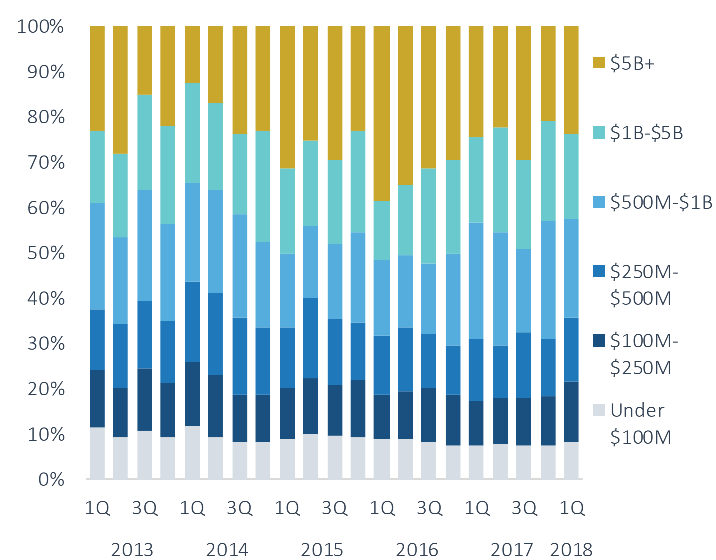
M&A (#) by size



Source: PitchBook

The lower & middle ranges of the market see increased portion of deal value

M&A ($) by size



Source: PitchBook

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Spotlight: Divestitures

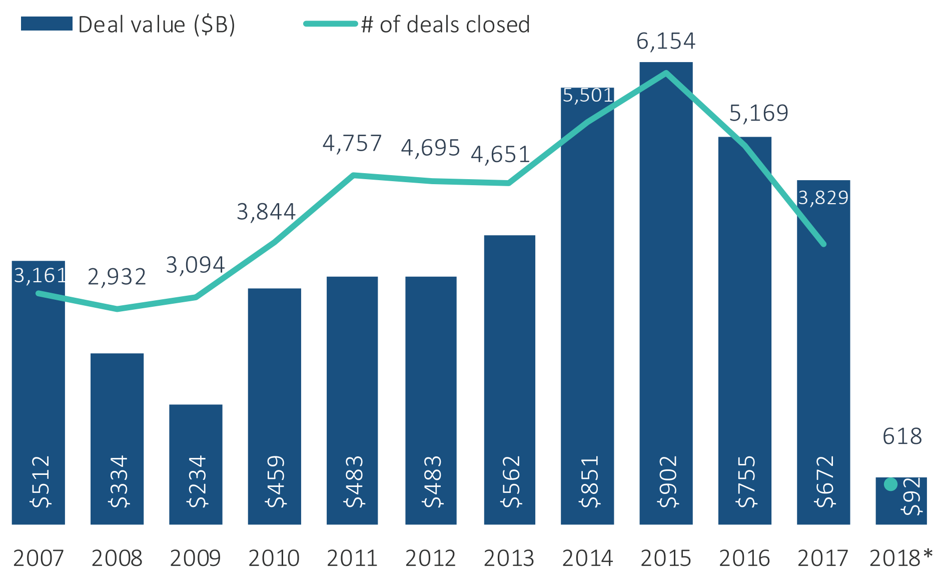
Uptick in announced deals signals cyclicality

M&A activity has historically exhibited a high degree of cyclicality. With dealmaking steadily increasing over the last decade and hovering near all-time highs, speculation has intensified that we're nearing the end of the cycle despite the flurry of announced deals seen early in 2018. Several signs suggest that the cycle may be ready to turn, including elevated pricing and relatively high levels of debt usage.

Another key indicator is an uptick in the number of carveouts and divestitures, as many companies are looking to slim down after the recent buying binge. While some companies are using these deals to refocus on their core business, other divestitures are being pursued in an effort to placate regulatory bodies, which have been exhibiting more scrutiny of many large-scale deals.

Even after the recent decline, other factors indicate divestitures are primed to accelerate

M&A divestitures



Source: PitchBook
*As of March 31, 2018

Top 5 announced carveouts of 2018

Carved-out business	Announced date	Deal size ($M)	Industry
Innogy	March 11, 2018	$53,006	Energy production
Thomson Reuters (Financial and Risk business)	January 30, 2018	$17,000	Financial software
AccorInvest	February 27, 2018	$5,438	Hotels & resorts
Federal-Mogul Holdings	April 10, 2018	$5,400	Automotive
Westinghouse Electric Company	January 4, 2018	$4,800	Alternative energy equipment

Source: PitchBook
*As of March 31, 2018

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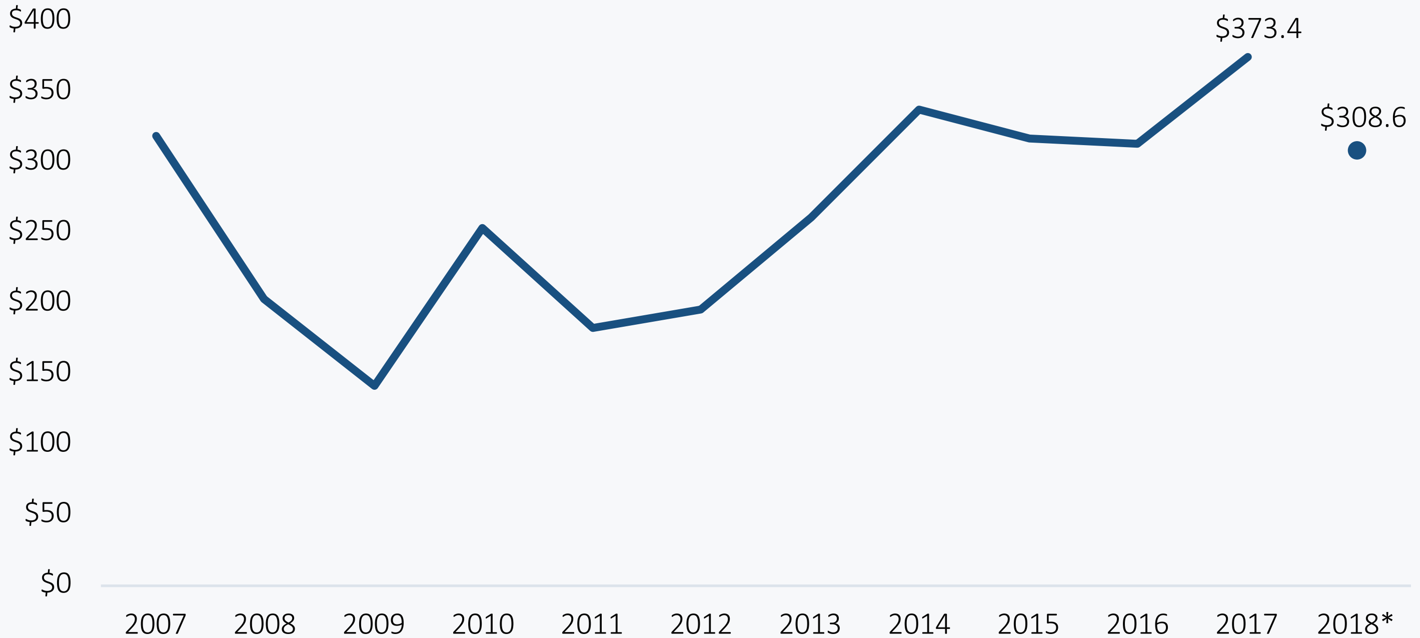
SPOTLIGHT: DIVESTITURES

Divestitures have persisted at high levels in recent years

Average divestiture size ($M)



Source: PitchBook
*As of March 31, 2018

This development has yet to materialize in our completed transaction data, with just 618 completed deals and $91.6 billion invested in 1Q; however, we recently have seen robust activity in announced deals of this nature, with 463 transactions totaling $149.0 billion that have yet to close. We expect this trend to accelerate in the coming quarters; according to a recent EY report, 87% of companies plan to initiate their next divestment within the next two years, compared to just 43% in 2017. Since many of these assets will be sold following failed integrations or due to regulatory pressure, we anticipate that potential acquirers may be able to find discounts relative to the elevated prices being paid for other M&A transactions.

But that does not mean that divestiture deals will necessarily be small. Indeed, the sizes of recent carveouts and divestitures have been particularly noteworthy; the median divestiture completed in 1Q 2018 was $308.6 million, compared to a median of $257.4 million over the last decade. The median grows to $583.0 million for deals that are announced but not yet closed, including Unilever's $13.9 billion divestiture of its spreads business and Blackstone's announced $17.0 billion buyout of Thomson Reuters' financial and risk business.

$308.6M

average size of divestitures closed in 1Q 2018 is below that of last year's tally, but persists at a historically high level