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European M&A Outlook

A study of European M&A activity

In cooperation with:

MERGERMARKET

September 2015

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Foreword

Stefan Brunnschweiler, Global Head of CMS Corporate/M&A Group

As we go to press, the M&A market is booming with the total value of transactions exceeding the pre-crash highs reached in 2007. And this despite the volatility in the world's equity markets. The optimism expressed in our 2014 M&A Outlook was, therefore, well founded, but where is the market heading now? This year's market research suggests that some of our respondents may be adopting a more cautious view on European economic growth for the year ahead. This sentiment perhaps resonates with the reality that the current M&A boom reflects a clear rise in the overall value of transactions taking place (up 17% in the first half of 2015), but masks a decrease in the number of transactions being agreed. The European M&A market, in particular, remains very attractive to foreign acquirers, an attraction that is supported at least in part by the strength of the US dollar against the euro.

The economic and political challenges facing European business, however, seem to be changing. The recent drama with Greece is resolved for the moment and the sanctions imposed by the EU, the US and other western countries on Russia, in relation to Crimea and Ukraine look set for the long term. Of greater concern now is the slowdown in China, the impact of possible interest rate rises and the potential for turmoil in emerging markets.

In the European M&A Outlook this year you will find:

- Attitudes towards Europe's economic recovery continue to improve;
- Political uncertainty remains a key concern for European businesses, along with divided opinions on the depreciating value of the euro;
- The TMT and industrial and chemicals sectors are tipped to be the most sought after with Germany retaining its lead position, now with 49% of our respondents' vote, as the busiest M&A market for the coming year;
- European businesses continue their trend of diversification looking for new sectors to expand into whilst remaining within familiar geographies; and
- Investors and corporates are becoming increasingly creative in their attitudes to funding with private equity and non-bank lending being regarded as potential sources of financing showing a move away from traditional banks.

An issue which is going to grow in significance over the next two years is the potential impact of the UK's in/out referendum on the EU. You can see the results of our poll on this topic on page 12. The large majority confident in the UK's continued membership admit concerns that a 'Brexit' would have a negative impact on the UK M&A market. With Greece's third bailout secured, we expect more focus on the UK re-negotiation in the coming months.

The European Commission and other competition authorities are now taking greater interest in the relationship between buyer and target prior to closing (often referred to as 'gun jumping'), and CMS partner Caroline Hobson provides her insights on this topic in an article on page 10.

This third edition of the European M&A Outlook has the advantage of assessing our results from 2015 against both those for 2013 and 2014, allowing us to look at changes in perspectives and outlooks over the past three years.

As with previous years, this publication is based on forward-looking research which aims to assess the attitudes towards the prospects for M&A across Europe over the next 12 months.

With the help of Mergermarket, we have engaged with key M&A stakeholders across Europe to gather their views on the areas for growth, economic and political pressures and key players in the M&A market over the next year. This research extends across all European geographies and a number of important market segments taking into account the views of CEOs, finance directors, bankers, M&A heads, private equity players and sector specialists.

We are looking forward to publishing our CMS European M&A Study 2016 early next year. The Study's main objective will again be to report on recent trends affecting M&A deal terms.

Until then, we hope that you enjoy the current M&A Outlook and we are grateful for any feedback you may wish to provide.

The year in review

The broader macroeconomic outlook is more mixed than in 2014. On the one hand, the IMF forecasts that euro-area gross domestic product (GDP) growth in 2015 will be above 1% (1.5%) for the first time since the post-Lehman financial downturn. However, systemic issues persist and low inflation and high levels of unemployment are making the eurozone's return to health a tepid one.

Also, in H1 2015, the European Union's economic recovery was further tempered by political shocks when, in May 2015, the Conservatives' decisive electoral win in the UK General Election put a referendum for the UK's continued membership in the European Union on the agenda. Further, in June and July 2015, Greece defaulted on a major loan repayment. What followed was a period of real economic and political uncertainty with the tension between Greece and its lenders intensifying to the point where the Greek government announced a snap referendum to decide whether they should continue to comply with the austerity measures. This raised serious questions about Greece's membership in the European Union, and caused the euro to depreciate against the dollar to the lowest point in 12 years. These events have shown that the euro and the European Union are susceptible to shocks, and reveal a certain fragility that can arise when the competing economic viewpoints of relatively strong and relatively weak member states come to a head.

Nevertheless, European M&A had a generally positive start to 2015. Although M&A deal volume decreased 14% year-on-year to 2,831 deals in the first six months of the year, deal value in the same period achieved levels not seen since 2007, growing 17% to €417.9bn.

This disjunction between volume and value trends points to a concentration of deals at the upper end of the market. Indeed, the contraction in volume is most visible among deals valued under €100m: while there were 952 such deals in H1 2014, there were only 715 in H1 2015. In contrast, there were 118 deals over €500m in H1 2015, compared to 117 in H1 2014. In this time of high valuations but lower dealflow, it seems that there

Top deals, H1 2015

Date announced	Target company	Target sector	Target country	Bidder company	Bidder country	Seller company	Deal value € (m)
08-Apr-15	BG Group Plc	Energy	United Kingdom	Royal Dutch Shell Plc	Netherlands		74,542
24-Apr-15	Perrigo Company Plc	Medical: Pharmaceuticals	Ireland (Republic)	Mylan NV	United Kingdom		32,609
05-Feb-15	EE Limited	Telecommunications: Carriers	United Kingdom	BT Group plc	United Kingdom	Orange SA; Deutsche Telekom AG	16,725
15-Apr-15	Alcatel-Lucent SA	Telecommunications: Hardware	France	Nokia Oyj	Finland		14,421
24-Mar-15	Telefonica UK Limited	Telecommunications: Carriers	United Kingdom	Hutchison Whampoa Limited	Hong Kong	Telefonica SA	14,089
24-Jun-15	Delhaize Group SA	Consumer: Retail	Belgium	Royal Ahold NV	Netherlands		10,554
23-Mar-15	Pirelli & C SpA	Automotive	Italy	Consortium led by ChemChina	China	Camfin SpA	8,116
19-Feb-15	Rexam Plc	Manufacturing (other)	United Kingdom	Ball Corporation	USA		7,520
13-Mar-15	Fortum Distribution AB	Utilities (other)	Sweden	Consortium led by Borealis Infrastructure Management Inc	Canada	Fortum Oyj AB	6,636
02-Feb-15	Holcim Ltd and Lafarge SA (certain assets)	Construction	France	CRH Plc	Ireland (Republic)	Lafarge SA; LafargeHolcim Ltd	6,500

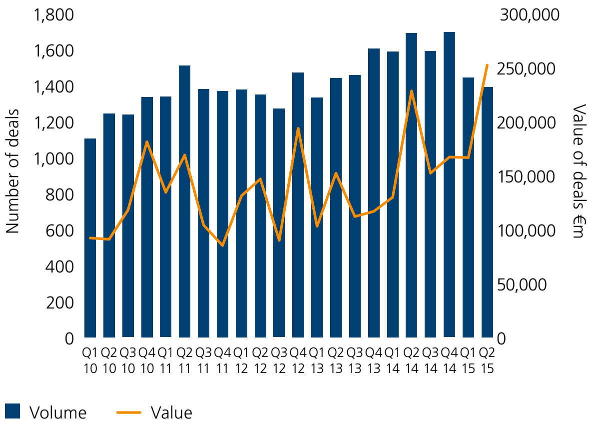
Source: Mergermarket

is a breakdown between the prices sellers are willing to accept, and buyers are willing to pay.

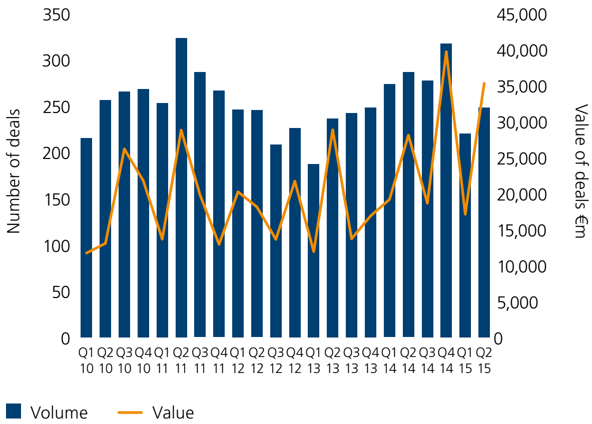
A similar trend can be seen in private equity: buyout volume contracted 16% YoY to 468 deals, while value rose 11% over the same period to €52.3bn. Examining private equity (PE) buyers, the role of international PE interest is crucial in sustaining deal flow. This is particularly evident at the upper end of the market: of the ten biggest buyouts of H1 2015, eight involved an international buyer.

Exit activity tells an even more positive story: comparing H1 2014 and H1 2015, exit volume and value rose 22% to 440 deals, and 15% to €65.4bn. Relative to other segments of dealmaking, exits were slower to recover in the years following the financial downturn, as private equity firms waited for higher valuations to recoup their investments. But exit activity over the course of 2013 and 2014 has gradually gained steam, as the valuation climate has improved and selling firms have found more buyers, both strategic and financial.

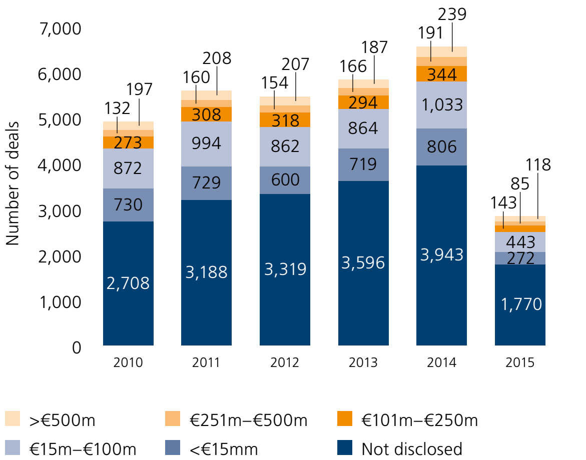
M&A trends



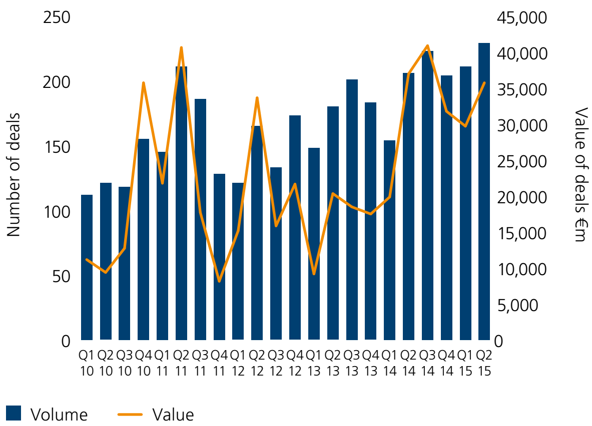
Buyout trends



Deal size splits



Exit trends



Source: Mergermarket

Breaking M&A activity down by sector, TMT activity has continued to be a dominant force on the M&A landscape. TMT accounted for 15% of M&A by volume, and 19% by value in 2014 and H1 2015, making it the second largest sector by volume, and the largest by value. Telecommunications continues to be the driver behind large-cap TMT deals, with all of H1 2015's biggest TMT deals involving telecommunications targets. This space continues to consolidate in Europe, as the European Commission moves toward a single market.

Overall, the first half of the year has set the stage for a dynamic and busy end to 2015.

European breakdown

Benelux
The Benelux's constituent countries are all forecast to see GDP growth of more than 1% in 2015, indicating a healthy business climate. At the same time, M&A in the region decreased by 12% YoY to 230 deals, although value rose by 59% to €29.8bn over the same period. The Benelux's mainstay sectors – industrials and chemicals, consumer, business services and TMT – all saw strong levels of activity in the first six months of 2015.

However, both the Netherlands and Luxembourg saw a contraction in deal value in H1 2015. The sharp rise in deal value was largely due to activity in Belgium, where deal value increased from €616m in H1 2014 to €15.9bn in H1 2015. This was the result of a single deal, the Netherlands' Royal Ahold's acquisition of Delhaize for €10.6bn. The rival grocery groups both have substantial operations in the US, with the consolidated company set to be among the five biggest grocery chains in the country.

Central and Eastern Europe (CEE)
In H1 2015, CEE saw M&A volume decrease by 32% YoY to 237 deals, and value decline 49% YoY to €14.5bn.

Largely at the root of H1 2015's sluggish figures is Russia. As the country's relationships with the US and the EU worsened over the Crimea conflict, Russia-based M&A with foreign buyers has slowed dramatically. In H1 2015, there were only 14 inbound deals into Russia worth €2.6bn.

Still, the region has some bright spots: M&A in Poland has grown 7% by volume to 58 deals, and nearly twofold by value to €3.4bn.

France
In the first half of 2015, dealmaking in France decreased 11% YoY by volume to 357 deals, and 44% by value to €49.4bn. While these figures are muted, they do represent a sustained recovery over the past three years. For instance, there were only 313 deals valued at a combined €9.2bn in 2012.

At the upper end of the market, France also saw buyers from around the world interested in a number of sectors, particularly TMT, industrials and chemicals, and construction. Telecommunications in particular has been an active space over the past year, following the high-profile bidding for France's telecom operator, SFR, ultimately purchased by Luxembourg-based Altice for €17bn. While Emmanuel Macron, France's Economy Minister, recently stated that it was not the right time for further consolidation among major telecommunications carriers, M&A is certainly happening in other areas of the sector.

For instance, in the biggest France-based deal of H1 2015, Finland's Nokia acquired Alcatel-Lucent, a wireless hardware producer, for €14.4bn. The acquisition will give Nokia an increased presence in the US, thanks to Alcatel-Lucent's relationships with major networks, including Verizon and AT&T. Nokia also stands to benefit from Alcatel-Lucent's existing small cells technology and product pipeline.

German-speaking countries
M&A in Austria, Switzerland and Germany had a comparatively tepid start to 2015: dealmaking declined 12% YoY by volume to 467 deals, and 28% YoY by value to €32.2bn. Looking at the three countries individually, all saw slowdowns in both volume and value.

Of the region's three constituent countries, Germany is far and away the biggest destination for M&A,

accounting for 13% of European M&A by volume and 6% by value. While Germany-based dealmaking saw slight declines in 2015, there were nonetheless several bright spots. For instance, the consumer sector saw activity rise from 42 deals worth €1.1bn to 51 deals worth €6.3bn. The two biggest deals of the year involved German retail targets, with the sales of Douglas Holding and Galeria Kaufhof. In the former instance, CVC Capital Partners announced plans to purchase German beauty retailer Douglas Holding for €2.8bn from Advent International. This is CVC Capital Partners' second acquisition of a European speciality beauty retailer (after its acquisition of Denmark's leading beauty chain, Matas, in 2007), on the expectation of growth in the space.

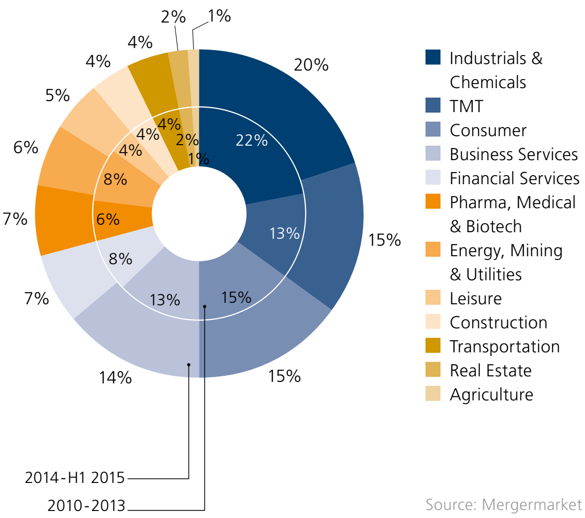
Germany-based private equity activity performed especially well in H1 2015, largely due to a number of high-value secondary buyouts. While there were only 15 such deals in H1 2015, they had a combined value of €5.6bn, up from 12 secondary buyouts worth €3.9bn in H1 2014. Of the four German secondary buyouts with announced deal values, three were valued at more than €500m, with CVC Capital Partners' acquisition of Douglas Holding being the largest. The second biggest Germany-based secondary buyout saw The Fifth Cinven Fund plan to buy Synlab from BC Partners. Cinven plans to merge Synlab, a laboratory analysis firm, with another diagnostics laboratory, Labco, which it also acquired in a secondary buyout from PE firm 3i.

Iberia

After M&A climbed to a five-year high in volume in H1 2014, it contracted noticeably in the first six months of 2015: volume dropped 16% YoY to 174 deals, and value declined 36% YoY to €19.1bn. Still, Iberia remains a relatively popular market for European M&A, and is the seventh-most active European region by volume, and sixth-most active by value.

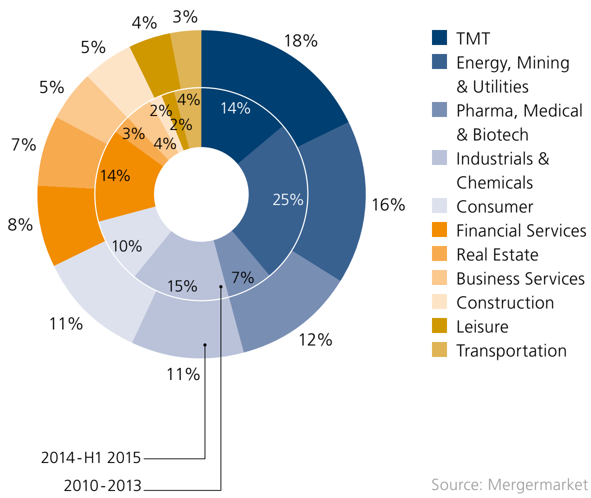
There are also signs of growth in Iberian M&A. The Spanish real estate sector in particular has seen a revival in recent months. The Bank of Spain estimates that residential property investment will grow by 4.2% in 2015 and 6.6% in 2016. Foreign and increasingly domestic buyers are fuelling this growth. This increased

M&A volume split by target sector



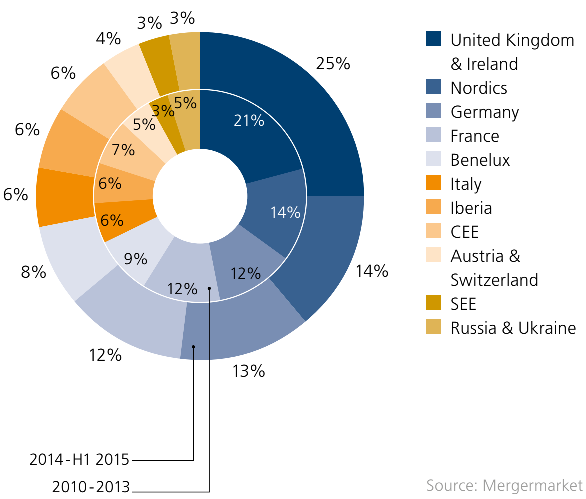
Source: Mergermarket

M&A value split by target sector



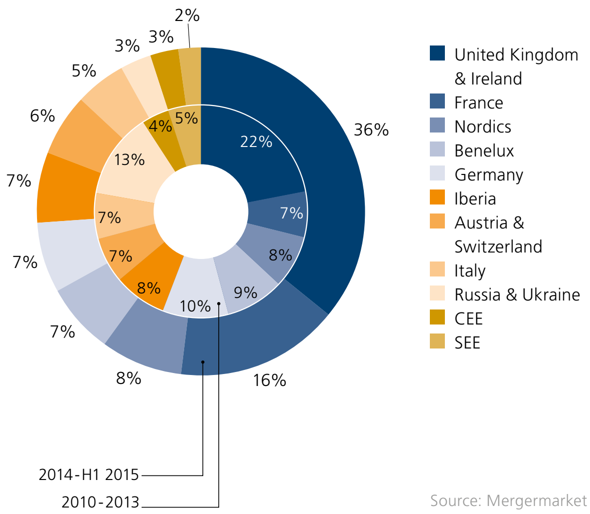
Source: Mergermarket

M&A volume split by target geography



Source: Mergermarket

M&A value split by target geography



Source: Mergermarket

optimism was reflected in M&A: while there were only six real estate transactions in H1 2015, they had a combined value of €4.9bn. The largest Iberian deal of the year saw Merlin Properties Socimi plan to buy Testa Inmuebles en Renta for €3.4bn. The deal is largely driven by the desire for scale, with the combined company set to be the largest in Spain.

Italy

Italian M&A had a strong start to 2015. In the first six months of the year, dealmaking edged up a marginal 1% YoY to 201 deals, while value increased more than twofold to €25.6bn.

Italy was host to a number of large-cap deals, with five deals over €1bn in H1 2015, compared to one in the same period a year earlier. The biggest of these deals took place in the industrials and chemicals sector: a consortium of bidders led by ChemChina's acquisition of tyre-maker Pirelli for €8.1bn. The deal will give Pirelli access to faster-growing Asian markets, and ChemChina stands to benefit from Pirelli's premium tyre technology.

The deal is part of a broader trend of Chinese companies moving into Italy: in 2014 and H1 2015 combined, there were 19 Italy-based deals with Chinese buyers worth €10.8bn. This compares to 10 UK-based deals with Chinese bidders worth €2.5bn over the same period. This is somewhat surprising, given that the Italian M&A market is substantially smaller than the UK's. Some observers have commented that, in addition to China-based companies' general interest in technologically advanced, healthy European corporates, this is because the Italian government is less protective of 'national champions', and because Italian companies have been slower to recover from the financial downturn, and are thus on the lookout for cash injections.

Nordics

The Nordic area is one of the busiest markets for M&A, accounting for 14% of deal volume and 8% of deal value in 2014 and H1 2015. While dealmaking in 2014 climbed to heights not seen since 2014, M&A has remained more muted in the first half of 2015. Volume and value contracted 6% YoY to 420 deals, and 39% to €22.6bn. These decreases occurred relatively evenly by sector, with most industries seeing decreases either in volume or value in H1 2015 when compared with the same period a year earlier.

Still, there were pockets of notable activity in H1 2015. EMU deal volume remained steady at 23 deals, compared to 29 in H1 2014, while value rose 64% to €7.6bn. While alternative energy formed the backbone of mid-market deals, the upper end of the market was occupied by more traditional energy assets. For instance, the largest Nordic deal of H1 2015 saw a consortium of bidders led by Canada's Borealis Infrastructure Management buy Sweden's Fortum Distribution for €6.6bn. The deal sees Finnish parent company Fortum completely exit the power distribution space, after a series of disposals. Instead, Fortum is looking for utility acquisitions in Central and Eastern Europe, on the back of faster growth prospects in the region. Fortum's strategy is reflective of a broader trend in electricity, as businesses look to focus on power generation and to use sales of distribution networks to lessen their debt burdens.

South Eastern Europe (SEE)

M&A in SEE has contracted over the past few years, with H1 2015 no exception. In this period, volume declined 40% YoY to 74 deals, while value contracted 45% YoY to €3.6bn.

Turkey, the region's busiest target country, saw a steep decline: there were 59 deals valued at €3bn in H1 2015, compared to 103 deals worth €5bn in the same period a year earlier. While at the beginning of 2015, there were expectations of privatisations, particularly in the telecommunications and infrastructure spaces, this has not had a tangible impact on announced M&A.

Still, there were some bright spots: Turkey-based consumer M&A has remained robust, with 18 deals worth €1.2bn in H1 2015. In the largest Turkish M&A deal of the year, France's Lactalis Group announced plans to buy an 80% stake in Yildiz Holding's dairy unit, a producer of dairy products, for €727m. This comes after speculation that Yildiz Holdings would float these branches, rather than opting for a stake sale.

Looking ahead, M&A in the region may benefit from the proposed Greek privatisation programme.

The UK & Ireland

The UK & Ireland continues to be Europe's largest market for M&A, accounting for 23% and 35% of M&A volume and value, respectively, in 2014 and H1 2015. In real terms, M&A in the region declined 10% YoY to 661 deals by volume, although it rose almost threefold to €220.9bn by value. This sizeable jump in value was mostly due to Royal Dutch Shell's €74.5bn acquisition of the UK's BG Group. The deal will launch Royal Dutch Shell into a market-leading position in the liquefied natural gas space.

The PMB sector was also instrumental in sustaining dealflow. In H1 2015, there were 46 deals with an aggregate value of €35.7bn, compared to 44 deals worth €46.9bn in the same period one year earlier. The sector has experienced strong levels of dealmaking across deal sizes, as pharma companies look to reshuffle portfolios, advance personalised medicine holdings and remain on the lookout for future blockbuster drugs.

The UK & Ireland are also Europe's most active regions for private equity. In H1 2015, while buyouts declined slightly, exit figures surged: volume rose 20% to 117 deals, while value jumped twofold to €35.5bn. In the region's biggest exit of H1 2015, PE firm Blackstone Capital Partners sold holiday park operator Center Parks UK to Canada's Brookfield Property Partners. The €3.4bn deal sees Blackstone Capital Partners exiting its 2006 investment in Center Parks, and adds to Brookfield Property Partners' UK-based holdings, following its recent purchase of London's Canary Wharf.

M&A study
Clean teams and gun jumping – dealing with competition law risks in M&A transactions

Caroline Hobson
Partner, CMS

An M&A deal can expose the parties to a number of competition law issues. Whilst the key focus is usually whether a transaction requires merger control clearances, it is also important to remember that the parties will remain independent competitors until the deal is closed. In particular, both parties must be careful to avoid prohibited information exchange and 'gun jumping' which can create practical difficulties during due diligence and the period of time before mandatory merger control clearances are obtained. Failure to respect these rules can lead to penalties, including significant fines.

Knowing the boundaries of competition law during due diligence

It is a fundamental principle of competition law that the sharing of commercially sensitive information between competitors is a serious infringement. It is not the case that only a sustained pattern of disclosure is caught. A serious infringement can arise where there is either a unilateral non-reciprocal disclosure, or where information is shared only on one occasion. This applies to commercial activity in general, but is particularly relevant during due diligence.

Until a few years ago, there was little concern over information exchange in the M&A context, in part due to the fact that the short time frame meant there was arguably little market impact. However, with an increasingly tough enforcement approach taken by competition authorities to the sharing of commercial information between competitors, the issue has become a greater concern. Whilst competition authorities appreciate that due diligence is an integral part of any M&A process, they will also expect the parties to have taken all reasonable protections to ensure information is released in a controlled manner which is appropriate to the nature and stage of the transaction, particularly where the parties to a transaction are competitors. Although non-disclosure agreements are frequently used and control the flow of information, they do not mitigate competition law risk.

Competition authorities become concerned when information which is 'commercially sensitive' is shared. In general, this covers information which would reduce a party's strategic uncertainty about the activities of a competitor. Determining whether data is commercially sensitive will depend on the nature of the parties, the type of information, the structure of the market, and the public or private nature of the information.

Sellers must start by evaluating which information is highly sensitive, and consider early on how the release of that information should be controlled. Some examples of particularly high-risk information are marketing and future commercial strategy, customer information, and a company's pricing policy including costs, discount policies and margins.

The seller then has three options: refuse to share the information, remove the sensitivity or establish a process to prevent it from being used to distort the market. Sensitivity can be removed by redacting documents, only releasing historic information, or aggregating data.

Equally, buyers – as recipients of the information – must also ensure appropriate protections are in place. In order to facilitate essential due diligence whilst mitigating competition law risk, an increasingly popular approach is to use a 'clean team'. Clean teams are typically comprised of external third parties who review the detailed information but report back with aggregated, anonymised or benchmarked information. Alternatively, in some cases where it is not practical for a third party to be used exclusively, a clean team may include a very small number of personnel from the buyer. Ideally these should be individuals who will not, at least in the short term, be party to commercial decision making where the information gleaned in the due diligence process could be used to secure an advantage. Sharing information outside the clean team should be on a strictly need to know basis with senior authorisation.

The importance of establishing whether the transaction requires merger clearance

There are now few jurisdictions which do not have merger control regimes, and the majority of regimes require mandatory filings when the relevant thresholds, usually based on the parties' turnover, are met. Typically failure to file can attract penalties, including fines. For example, on an EU level, the European Commission can impose fines of up to 10% of worldwide turnover if parties breach the EU merger control rules. If the sale has already gone through, the new buyer may even be required to sell the target, which is likely to result in a heavily discounted price and significant reputational damage. There may also be further national penalties. As a result, all parties in a transaction are advised to check early in the process whether and when filings may need to be made. Many types of transaction, including joint ventures and the acquisition of minority interests, can trigger the need to make a filing in many jurisdictions.

The two cases of Electrabel and Marine Harvest highlight the consequences of a failure to notify an acquisition. Despite the fact that both cases involved the acquisition of shareholdings of below 50%, in light of participation in general meetings and shareholder voting patterns, the purchasers were deemed, in practice, to have acquired de facto sole control over the target companies. In neither case did the acquiring party notify the acquisition of the shareholdings. In both instances, the European Commission imposed fines of €20 million for failure to file.

These cases provide a cautionary tale for M&A investors. Both buyers acted on the assumption that the initial acquisition of a shareholding below 50% did not breach EU merger control law, and voluntarily notified the Commission after later purchasing a further share.

Gun jumping

In addition to caution when sharing information during due diligence, parties who are required to submit mandatory merger filings and seek regulatory clearance must not implement an acquisition before receiving prior approval of the competition authorities. In contrast to information exchange, the rules against implementation or 'gun jumping' apply even if the parties do not compete.

Most obviously, implementation catches the legal completion of any merger prior to merger control clearances being received. However, implementation for these purposes also catches any activity or conduct by the merging parties where the effect is for the parties to coordinate, integrate or act in any way as if the merger had already taken place. For example, the buyer should not act to influence the current target business before it actually owns it by making or being involved in commercial decisions, and the buyer's commercial teams should not have access to commercially sensitive information. The parties must also ensure that transition planning does not cross the line into quasi-integration. All integration plans should remain as proposals ready to be implemented until clearance is given and until such time that clearance is received, the parties must continue to operate independently and resist sharing commercially sensitive information.

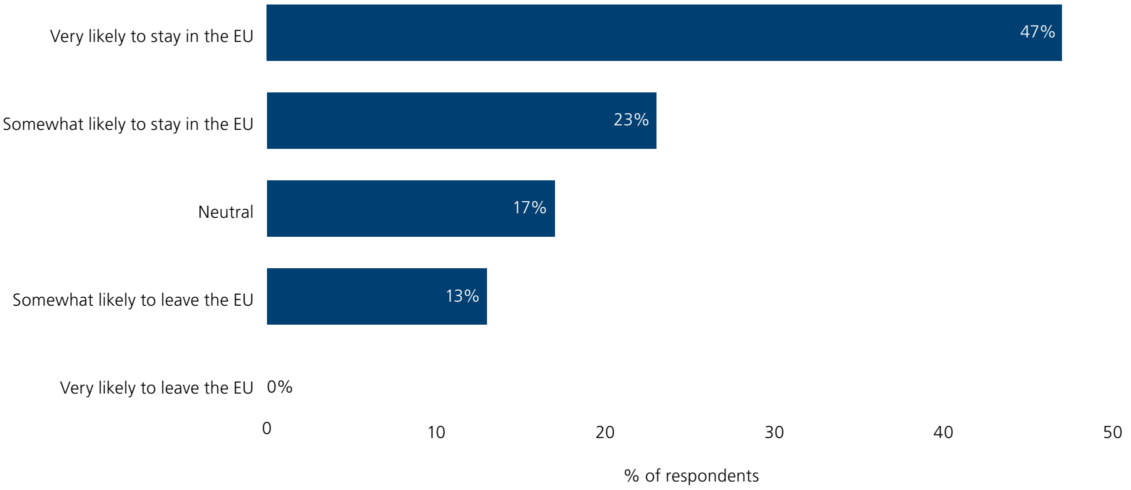
Breach of this rule can lead to significant penalties by competition authorities, including fines. The European Commission's imposition of €20 million fines in the Electrabel and Marine Harvest cases has demonstrated that it is not afraid to use its procedural enforcement powers. It cannot be excluded that similar fines could be imposed for gun jumping.

Conclusions

Although competition and merger control may seem to be obstacles to corporate activity, they must be taken seriously. An increasing number of competition authorities are getting stricter with their enforcement. In almost all cases, a balance can be found between commercial objectives and legal compliance.

Considering a ‘Brexit’:
What does the UK’s in/out referendum mean for European business?

In the proposed referendum on the UK’s continued membership in the European Union (EU), what do you think the outcome for the UK will most likely be?

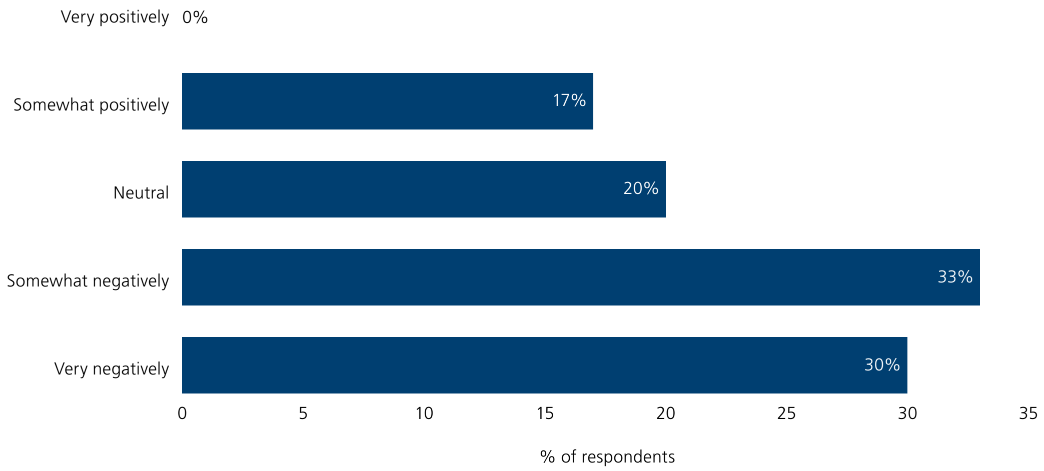


Ahead of the 2015 UK General Election, Prime Minister David Cameron had run an election campaign on the promise of holding a referendum on the UK’s continued membership in the European Union by 2017. The Conservatives’ decisive victory in May set this plan in motion. Although the markets initially reacted positively to the Conservatives’ win (as likely they would have with any mainstream party being elected by majority), it has nonetheless raised questions about the future of the European business climate if the UK were to exit the EU.

To gauge European corporate respondents’ expectations of and concern over an in/out referendum, we interviewed 30 European executives. While the respondents voice a variety of opinions, the closeness of the UK and the EU, as well as the mutually important relationship between the two, are frequently emphasised.

When asked about the likelihood of a so-called ‘Brexit’ occurring, a majority (70%) believe that the UK is somewhat or very likely to stay in the EU. A number of these respondents point to the close business, legal and economic ties between the UK and the EU. For instance, a Switzerland-based Director of Strategy comments: “Britain is likely to stay in the EU, as the EU has a stable political and regulatory framework to ensure that business takes place in a fair manner. Even if the UK exits, it will still have to agree to many EU policies in order to do business here, which is almost equal to being a regular member of the EU.” Respondents are certain that it makes clear business sense for the UK to stay within the EU, and are optimistic that it will do so.

If the UK were to exit the EU, how would it impact UK M&A?



Underscoring the importance of the EU to the UK, respondents present a bleak picture of the UK's M&A climate if the country were to exit the EU. When asked about the impact of a UK exit from the EU on UK-based M&A, 63% say that the impact will be somewhat or very negative, whilst 20% believe any consequences to be neutral. Only 17% of respondents would believe an exit from the EU would have a somewhat positive result on the UK M&A markets. A number of respondents express their predictions in stark terms: "If the UK exits from the EU, the UK will be seen as an isolated economy, so foreign investments will likely decline. The domestic market will also likely be chaotic, as many British businesses are export-oriented. After exiting the EU, adjusting to new trade and investment policies will take years. Until then, British companies will hold on to their assets rather than undertaking M&A transactions," a Russia-based Director of Finance explains.

Respondents also are clear that the EU's importance to UK-based business is reciprocated, and articulate the ways in which a 'Brexit' would impact the European business climate more generally. Again, respondents point to the deep ties between UK-based and other European businesses: "If Britain were to exit the EU, it would negatively impact European businesses, as many companies on the continent have dealings with Britain. EU businesses depend on mutual cooperation from country to country, which will be compromised if Britain exits the EU," comments a Chief Financial Officer in France.

Overall, respondents are optimistic about the prospect of the UK's continued membership in the EU, and offer strong rationales for continued business integration across their European borders.

The CMS roundtable debate:
Private equity and the energy sector

Our panel of experts discuss trends and movements in the energy market and discuss how private equity ('PE') is faring.

Volatility in the energy market has made M&A a less enticing proposition than in recent years. Excluding a handful of megadeals, volume and value have both declined. Yet, backed by hefty cash balances, PE could well start stepping up its dealmaking in the sector.

Mergermarket (MM): In energy, mining and utilities M&A during H1 2015, volume has decreased 33% year on year, while value has jumped 185%. What factors have underpinned these developments?

James Brooks: As the oil price has declined, there has been sufficient uncertainty in everyone's outlook and value expectations, so that few energy businesses are looking at M&A today. They are trying to address their own internal issues and adapt their strategies. A combination of internal and market issues means that there is very little activity.

Charles Currier: Looking at the power sector, we are no longer seeing utilities divesting to shore up their balance sheets. Prime assets that were of interest to various institutional investors are now gone. A lot of utilities are still seeking to shore up their balance sheets, but through joint venturing and other partnerships.

Still, there are some macro factors encouraging deal-making: there is a wall of equity money that is still looking for homes in the right assets. We are seeing a definite trend of acquirers taking on more risk, whether that be construction or developmental. That said, this is not leading to huge volumes of deals. The market for M&A overall is down.

Roderic Heeneman: Generally, companies are revising their strategies. But it is important to differentiate energy by segment and region, as what is happening in the US is different from what is happening in Europe. If you differentiate the value chain between manufacturing and asset-based transactions, as well as retail chains, it is a very diverse picture.

For instance, we have had difficulties selling refineries – and we still have. But on the retail side, we recently sold a huge part of our network in the UK, which correlated with a very strong property market. We are not immune to what is happening in the market generally, so people take a very bullish view on retail. On the infrastructure side, transactions have been done at surprisingly high multiples.

MM: Where do you expect the energy sector to go in the next year?

Mark Kerr: I think there will be fewer oil services opportunities in the first half of next year. Most opportunities will probably be distressed situations. But there are some exceptions to this: there are currently at least two decently sized (£100m+) oil services deals being mooted in the North Sea area.

There is a slightly different picture on the exploration and production (E&P) side. In the last 12 to 18 months, there have been several new E&P-focused companies, like Siccar Point Energy and Neptune Oil & Gas, set up and backed by PE. The North Sea will be a focus area for them. Although it looks as if these companies have struggled to find opportunities at the right price to date, I expect there will be a number of E&P deals done by PE-backed firms in the next 12 months. Supposedly, about 50% of assets in the North Sea are either officially or unofficially for sale.

James Brooks: In the second half of this year, I think there will be a stabilisation of the market. Financing via capital markets, particularly debt, should become more available. There will be counter cyclical plays. Companies will also be able to define their strategy for the lower oil price, which will drive increased activity.

Roderic Heeneman: We see covenants loosening on Wall Street. There is a lot of money and a desire to invest. Many PE firms are interested, although when it comes down to spending money, many parties get cold feet. But where stable assets can be combined with management expertise, perhaps in more stable environments, deals may be done.

James Brooks,
Executive Director,
Goldman Sachs

Charles Currier,
Head of Corporate
(UK), CMS

Roderic Heeneman,
General Manager,
M&A, Shell

Mark Kerr,
Director and Head
of Scotland, LDC

MM: Speaking of PE, what have been the key developments in the market in H1 2015?

Mark Kerr: In 2013 and 2014, whenever an asset of a certain size was for sale, there was a consistent picture of PE firms outbidding trade buyers. This indicates that there was a significant wall of PE money. Generalist PE firms decided that the oil sector was a great place to put money, and because of the growth over the previous four or five years, probably expected to see continued upward momentum. They were, therefore, willing to pay high prices, and quite often were willing to give significant levels of cash out to management teams.

Some would say that Riverstone Holdings' acquisition of Proserv marked the current cycle's high tide. Within months of that deal, the debt was trading substantially under par. There has not been a lot of PE activity since then. Most oil services businesses are not trying to sell now, unless there is very good reason to do so.

Roderic Heeneman: For PE firms to invest, they need to be comfortable with volatility in the supply chain and the lower margins. We have seen PE funds pursuing assets in the US. But in Europe, there is less experience. However, if there is an experienced management team, and a value creation plan on how to take it forward, that might prove to be a successful strategy for PE in Europe. Especially, if there is a clear exit strategy. In more traditional assets, very often it is unclear what the exit point is. You can milk assets for cash and dividends, but there needs to be an exit story as well. In our opinion, it is a matter of time before more PE firms invest, because it is mainly about getting comfortable.

Charles Currier: In the power sector, PE firms have really struggled on pricing, because they are getting squeezed by the pension and infrastructure funds.

Many PE firms have to look at more esoteric sectors to find deals. In my mind, there is an absolute divergence in the market between those who have the lowest cost of capital and those who have raised very significant funds. Regulated core infrastructure asset and gas networks are now the preserve of a handful of funds. Everyone else is working out what they are going to do going forward, whether that be dropping return expectations, looking at different geographies, or pursuing different assets with risk mixes. As a result, we are seeing more activity in Central, Eastern and Southern Europe.

James Brooks: The large funds raise money from investors and need to deploy money irrespective of market timing. Their reason for existing is to deploy capital. This need drove interest in the oil market in 2013 and 2014 in one of the most stable high oil price environments in 20 years. The negative sentiment in today's market, and difficulty in raising debt in H1 2015 for oil and gas assets, has limited PE deals. As capital markets open, PE will be very active.

For PE firms to invest, they need to be comfortable with volatility in the supply chain and the lower margins. We have seen PE funds pursuing assets in the US. But in Europe, there is less experience.

Roderic Heeneman, General Manager, M&A, Shell

MM: What does this mean for PE valuations?

Mark Kerr: At the end of the day, PE firms are still sitting on significant amounts of cash that they have to deploy, which is not a positive dynamic. Looking at the Aberdeen market, there are fewer generalist investors looking for deals due to the challenging market, but there are still some. Also, pricing on the few deals done over recent months has still been quite high. Undoubtedly a number of investors have overpaid for assets in the last 12 months.

Charles Currier: We see that as a trend that is only increasing, as LPs and other institutional investors look to increase the size that they are putting into energy and infrastructure.

In the power market, there is a huge amount of capital, particularly in generation but also in transmission and distribution. Europe has aging infrastructure, political will to de-carbonise generation, and electrify transport. But the regulatory uncertainty and, therefore the risk to investors, means that you are not getting capital into those deals.

Roderic Heeneman: I think it is interesting to see some anti-cyclical behaviour, with PE players dressed up as industry players, for example. There are firms with a lot of money, and it will be interesting to see them spending at what might be the bottom of the cycle. Building these integrated, new oil companies on a low-cost basis can be quite competitive.

In the power market, there is a huge amount of capital, particularly in generation but also in transmission and distribution.

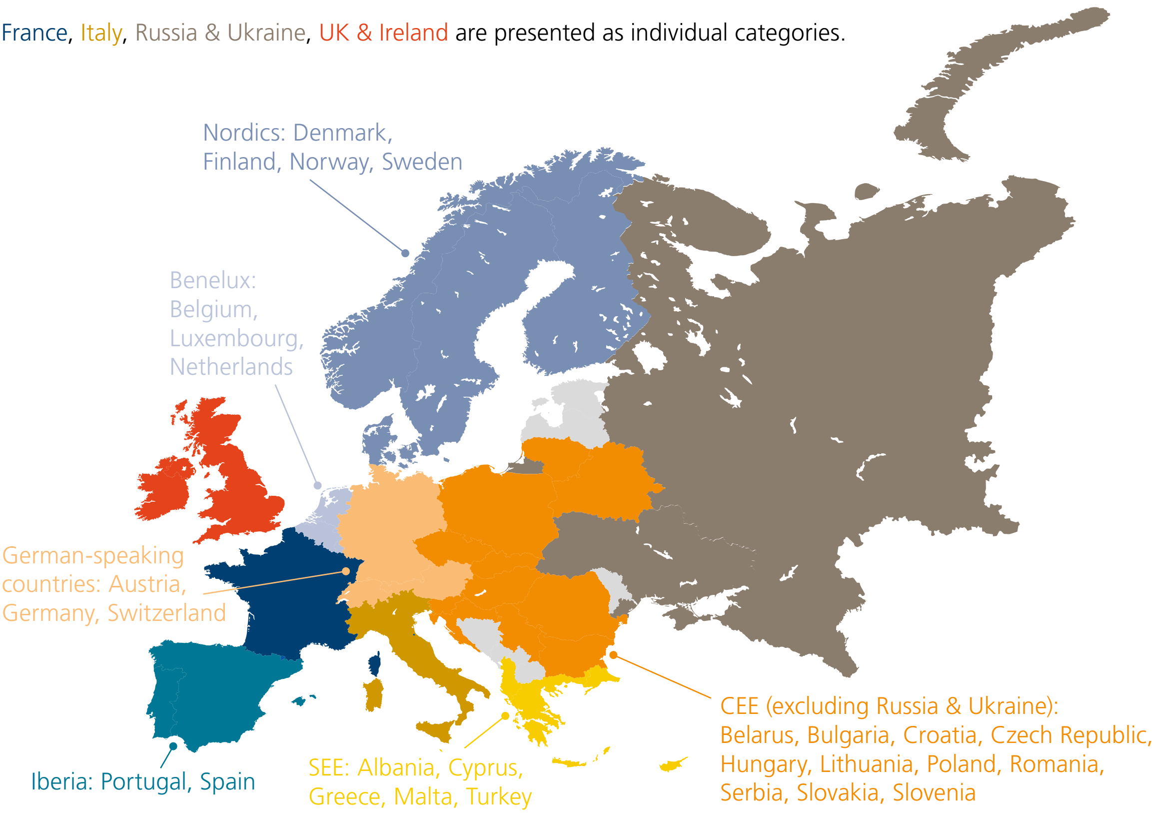
Charles Currier, Head of Corporate (UK), CMS

Methodology

In the second quarter of 2015, Mergermarket interviewed 230 Europe-based corporate executives about their experiences of the continent's M&A and economic climate, along with their expectations for the future. All responses are anonymous and results are presented in aggregate.

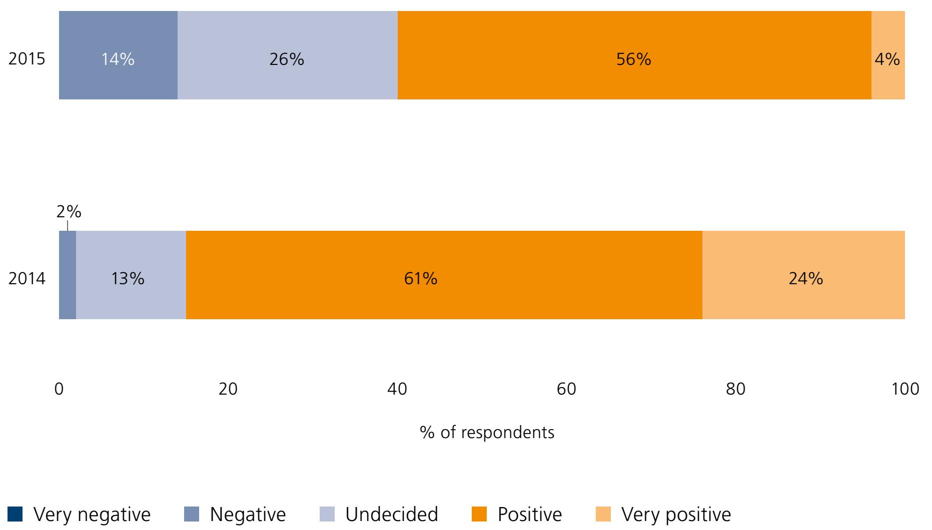
The data has been divided for comparative purposes into regions. The countries included in each of these regions are as follows:

France, Italy, Russia & Ukraine, UK & Ireland are presented as individual categories.



Market research

How positive do you feel about the prospects for economic growth in the European region for the next 12 months?



This year's respondent pool is relatively optimistic about the prospect for economic growth in the coming year. A clear majority (60%) of respondents are positive or very positive.

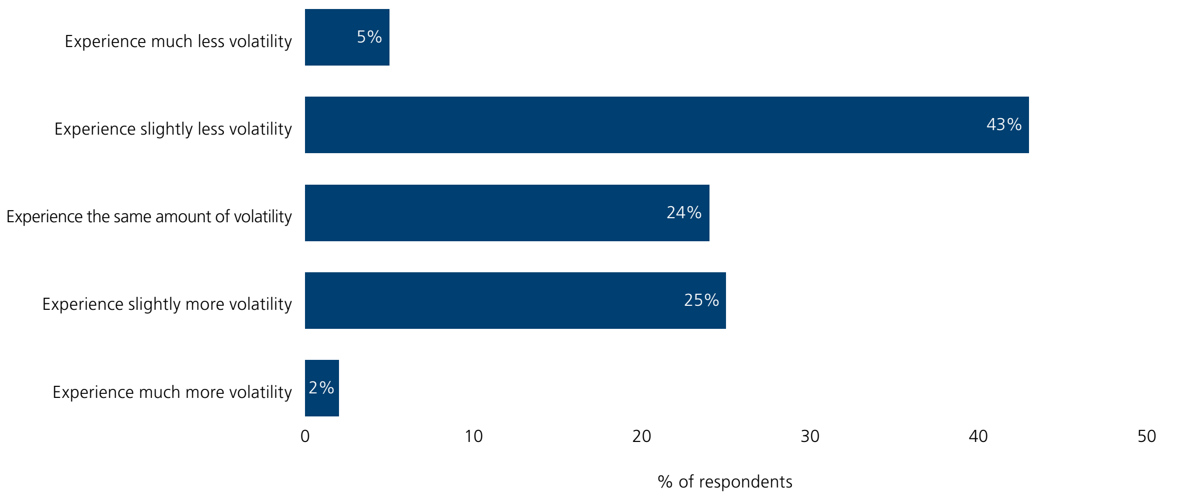
Still, the percentage of respondents who are negative about growth prospects in 2015 (14%) has grown by 12 percentage points from the previous studies. These findings resonate with the announced figures for the first half of the year, in which M&A by volume was down in comparison to the same period in 2014, declining by 14% YoY. Value, however, rose by 17% YoY. This disjunction between volume and value could point to a frothy valuation climate. For many potential buyers and sellers, there may be a gap between valuations, leading to a decrease in M&A volume.

This more muted enthusiasm about growth prospects can be seen from the respondents' comments, in which several say that certain well-documented political and economic issues will temper economic growth.

For instance, a France-based Director of Finance comments: "The worsening geopolitical climate will hold back the European economy from improving at a faster pace. The recent elections in the UK and political disturbances in Russia and Ukraine are likely to be the main obstacles to growth." In particular, in contrast to the previous year, a further 12% of respondents adopt a more negative outlook.

Still, other respondents point to the continuing upward momentum seen since the low point of the financial crisis, and make it clear that while economic growth may be moderate, the eurozone should continue to recover over the coming year. A Benelux-based Global Director of Finance states: "For the first time since the financial crisis in 2008–09, the economies of all European Union (EU) member states are expected to grow again this year, as we have seen in the latest reviews. Over the course of this year, economic activity is expected to pick up moderately in the EU and in the euro area, before accelerating further in the next year."

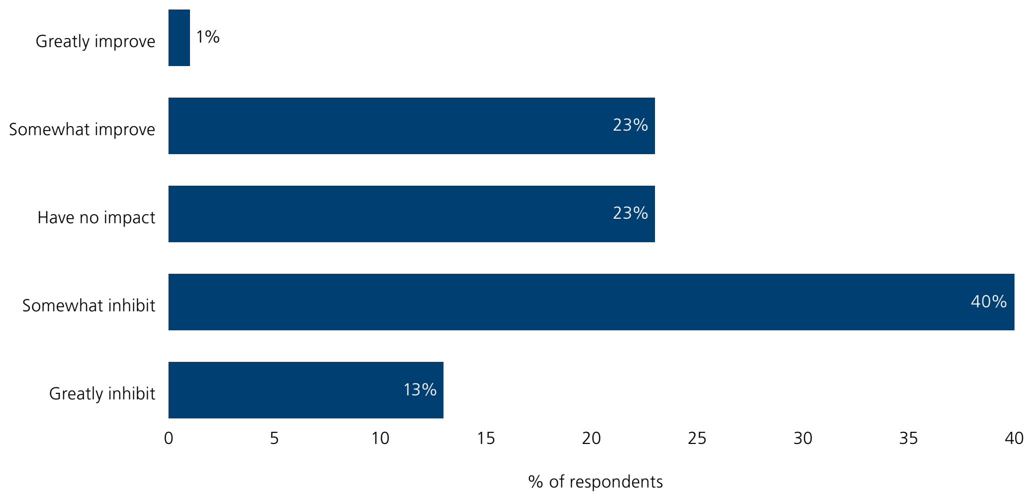
Comparing the next 12 months with those previous, do you think the eurozone will:



When conducting this research in May and June 2015, the largest share of respondents (48%) believed that Europe would experience less volatility in the coming year. However, in June 2015, Greece defaulted on a payment to the IMF, and Greek Prime Minister Alexis Tsipras announced a referendum on bailout conditions. These developments caused the euro to depreciate, reaching an eight-year low against the British pound in late July 2015.

In order to understand how respondents' views on European volatility may have changed since the survey was undertaken, we re-interviewed 50 of the initial 167 respondents who said that Europe was likely to experience less volatility, or the same volatility in late July 2015. Of these 50 respondents, 40 now expect that Europe will experience more volatility in the coming year as a result of the events in Greece.

What impact do you think Russia's deteriorating relationship with the EU and the US will have on M&A in Central and Eastern Europe (CEE)?



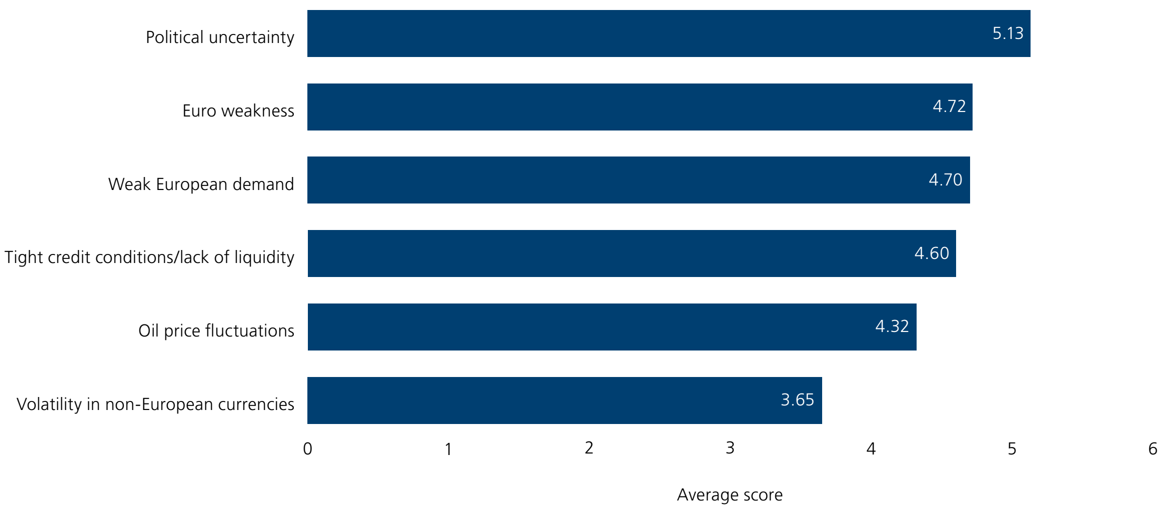
As a response to Russia's annexation of Crimea, the US and EU have imposed sanctions. These sanctions have understandably affected Russia's business and financial community and most likely deterred dealmakers. The majority of respondents (53%) believe that Russia's deteriorating relationship with the US and the EU will have a negative impact on the M&A market within the CEE. Respondents' comments also indicate that heightened risks could have a knock-on effect throughout the region. The Director of Mergers and Acquisitions at a Russia-based firm explains: "Trade relations are likely to be fully cut off as a result of the ongoing political situation with Russia. This is decreasing international interest in the CEE region, as buyers are wary of the rising risks with political and regulatory clearances when conducting M&A."

However, nearly a quarter (24%) believe that CEE M&A will somewhat or greatly improve, with a further 23% believing that there will be no impact. Many of these respondents expect that Russia- and Ukraine-based M&A may suffer, but that the region as a whole will remain stable. "The focus is likely to shift away from Russia and Ukraine and toward other CEE countries, as they have sufficient potential to manage and execute new deals coming their way," notes an Italy-based Managing Director.

Russia's unwillingness to back out from Ukraine is sure to lead to a further drop in economic performance and foreign firms will look to take the opportunity of falling prices and low valuations.

Director of M&A, France

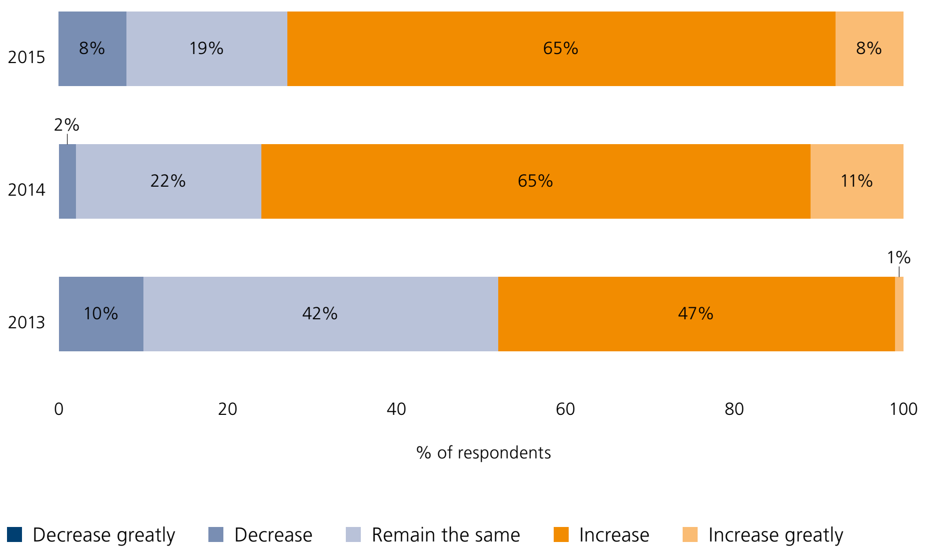
Please rate the following in terms of their threat level to European businesses over the next 12 months. (Please rate on a scale of 1-6, where 1 = insignificant and 6 = very significant)



Respondents identify a range of factors that may hamper the European business climate over the coming year. With average scores of 5.13 and 4.72, respondents rate political uncertainty and a weak euro respectively as the biggest threats to European businesses. A Benelux-based Global Director of Finance explains how these factors are inter-connected, and why they have heightened in recent months: "The uncertainty surrounding the existing economic outlook has increased. Downside risks have intensified and we are seeing new upside risks emerging. This is due to geopolitical tensions, possible financial market volatility in regards to expected higher US interest rates, and incomplete implementation of structural reforms."

However, there may still be a silver lining. Throughout the study, respondents remark on the positive fallout of eurozone volatility. While a weak euro will make imports and outbound M&A transactions comparatively more expensive, it may also make euro-area exports and inbound M&A deals more attractive to international buyers.

What do you expect to happen to the level of European M&A activity over the next 12 months?



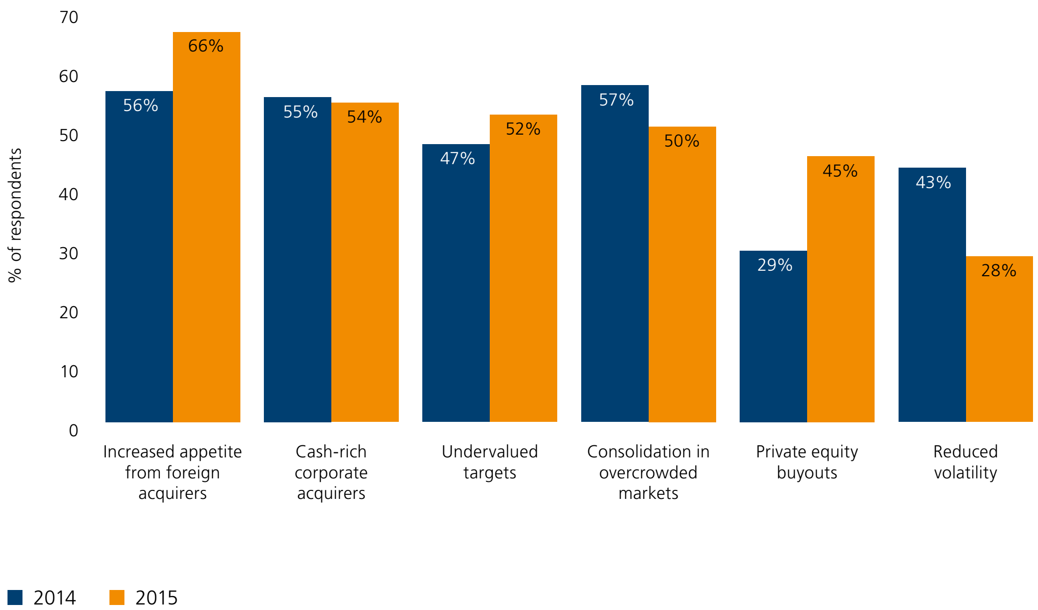
Examining the current survey pool's responses, a clear majority (73%) expect that M&A levels will increase or increase greatly over the next 12 months. This shows a similar level of optimism to 2014, when 76% of respondents expected an increase in M&A, and a marked increase from 2013, when only 48% foresaw an uptick in dealmaking.

While European M&A has had a muted start to the year, this indicates that M&A is on corporates' agendas, and that pipelines will be fuller in the second half of the year.

It is also interesting to note that the current cohort of respondents are noticeably more bullish about M&A prospects than they are about the economic climate (as evidenced by responses to Question 1). Several respondents specifically point to the intrinsic appeal of European assets to international buyers, as well as the current comparative inexpensiveness of euro-area assets. A DACH-based Director of Corporate Development says: "Many firms outside of Europe are looking to expand their boundaries by entering Europe, where valuations are low and financing is available. Developing markets in particular are on the lookout for potential targets, as they increasingly become global players."

> The deals we are going to see in this year are strategic, and well-planned. We're seeing a pre-crisis level of activity but in different markets and industries.
>
> *Director of finance, Belgium*

What do you believe will be the greatest buy-side drivers of M&A activity in Europe over the next 12 months? (Please select up to three)

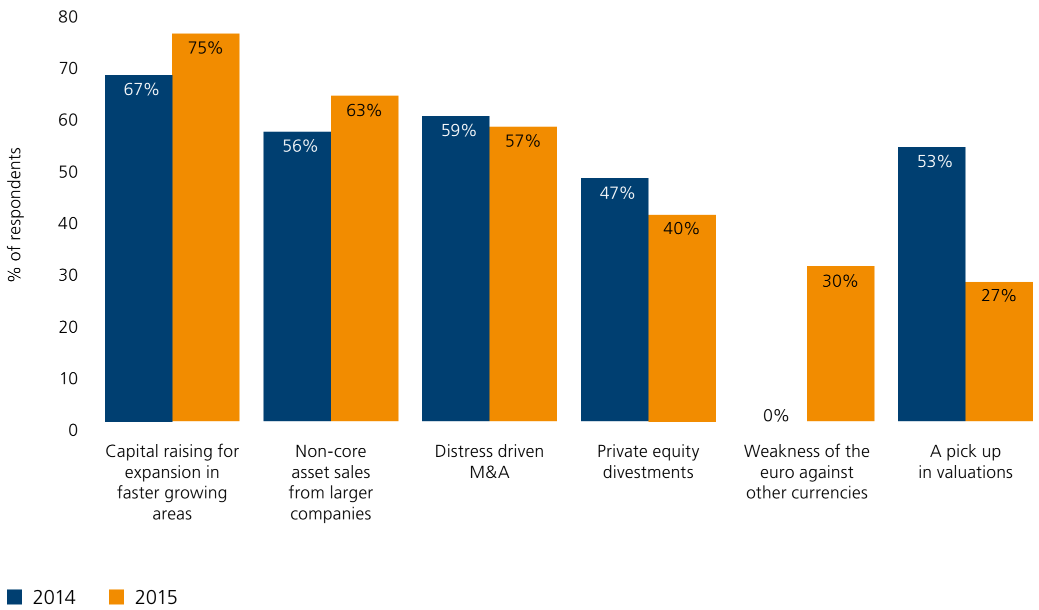


According to this year's survey, increased appetite from foreign acquirers (66%), cash-rich corporates (54%) and undervalued targets (52%) will be the biggest buy-side drivers in the next year. These findings align with comments throughout the study: foreign acquirers with cash to spend are looking to Europe for comparatively inexpensive, but ultimately healthy assets. A Chief Executive Officer based in the CEE elaborates: "Cash-rich corporates are considering deals in Europe due to the current low prices. In particular, those buyers from emerging markets will look to buy companies with new skill sets and technologies."

Respondents' assessment of private equity ('PE') as a driver of dealmaking is also at a high point from the last three years. While PE activity volume was depressed in the first six months of 2015, we have seen valuations rise considerably. This is partially due to a general uplift in valuations, as well as a need for PE firms to reinvest capital into a perceived few high-quality assets (as discussed in the roundtable, on page 14).

Buyout value rose by 11% YoY to €52.3bn, although volume decreased by 16% to 468 deals over the same period. A France-based Head of Finance comments: "PE firms have transformed a number of businesses in Europe over the past few years and are now moving their investments to the emerging parts of Europe where the rate of returns are more promising. Their involvement in European businesses has to some extent been positive in improving the performance and hence their investments will lead to opportunities for other corporates."

What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months? (Please select up to three, and select the most important)



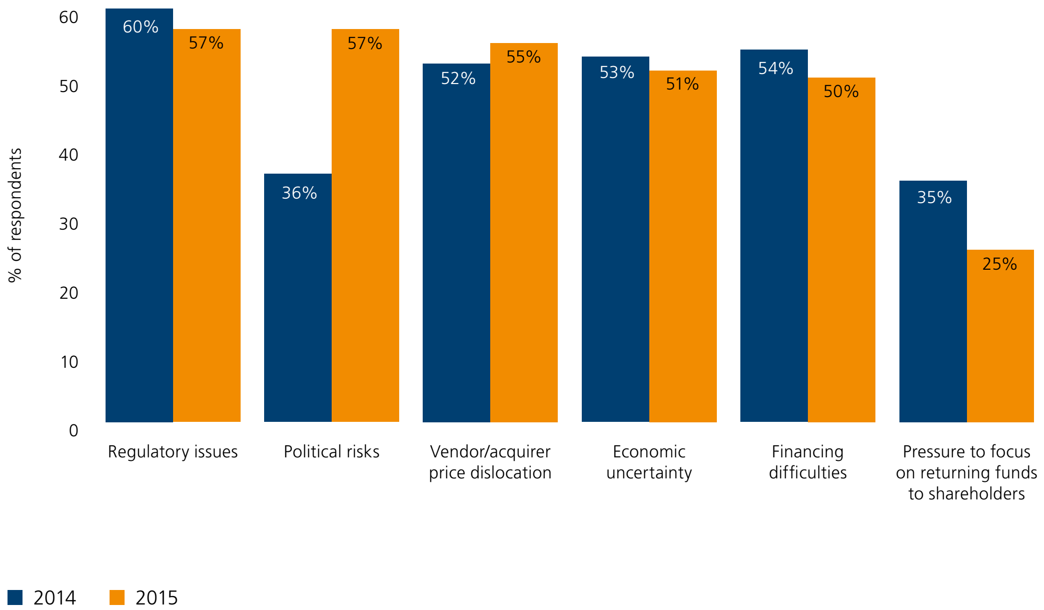
Similar to the studies of 2013 and 2014, this year's study shows that 'capital raising for expansion in faster-growing areas' (75%) will be the greatest sell-side driver. The share of respondents pointing to non-core asset sales (63%) is also at its highest point across the three studies.

Taken together, these findings present a picture of European corporates continuing to re-evaluate their portfolios, and re-investing their capital in strategic assets. An Iberia-based Director of Strategy describes this: "As the economy is improving there are more opportunities to increase performance and, therefore, it will have a positive impact on the valuations, bringing better prices to the sellers which will be a significant driver of increased M&A activity."

Still, this year's findings indicate some continued turbulence in the marketplace. Although at its lowest point across the three studies, 57% of respondents still identify distress-driven M&A as one of the biggest sell-side drivers. Further, only 27% point to improved valuations as one of the main sources of activity – a marked decline from the previous two studies. It is interesting to note that the greatest sell-side drivers may accord with the more negative activity as has been seen in H1 2015.

Note: 'Weakness of the euro against other currencies' was introduced as an answer option in 2015.

What do you believe will be the principal obstacle to M&A activity in Europe over the next 12 months? (Please select up to three)

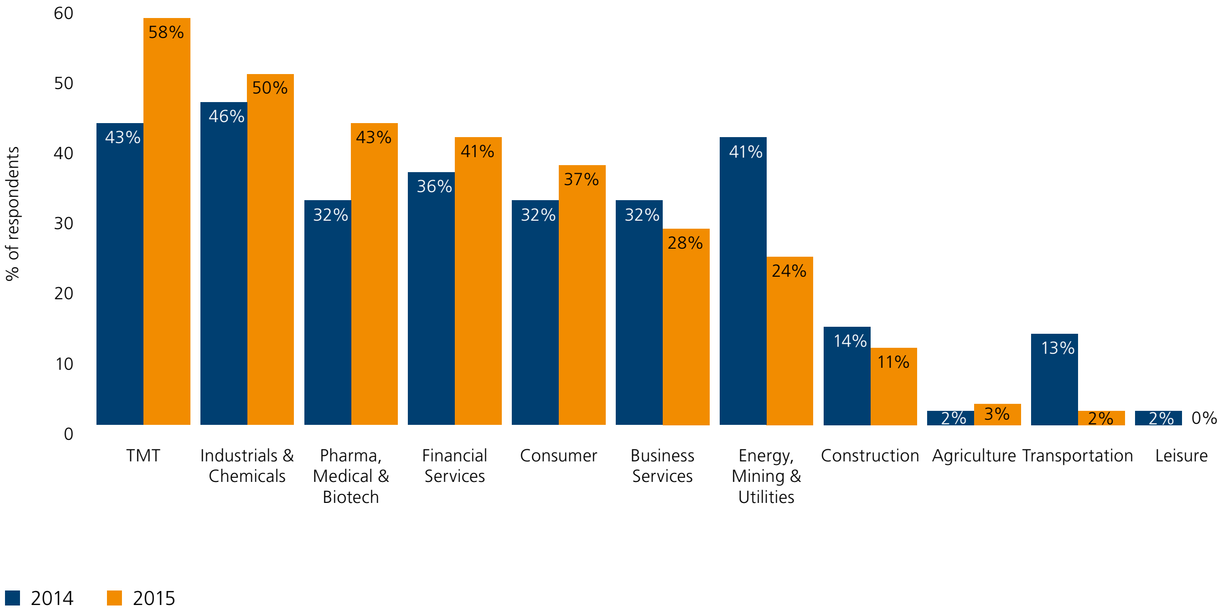


For the 2015 survey, political risk is among respondents' top concerns. This contrasts markedly with the 2014 results, when only 36% of respondents said that political risk would be one of the principal obstacles to M&A. A DACH-based Vice President of Finance explains why this problem has intensified over the past year: "The recovery of the EU is still shaky, thanks to political events such as the UK General Election and the conflicts in Russia and Ukraine. These have had a negative impact on the market, and thus M&A."

Competition matters continue to test respondents, as 57% say that regulatory issues will be a hurdle for M&A in the next year. This has remained a steady concern from previous years, in which 60% cited regulatory issues as a challenge in 2014 and 45% in 2013. A DACH-based Vice President of Mergers and Acquisitions explains these challenges: "Regulatory issues are rising continuously, and creating huge challenges for dealmakers as they have to shift their focus to complying with the added burden of requirements rather than focusing on expansion."

> Buyer-seller price dislocation will be the principle obstacle to M&A activity in the European region over the next 12 months.
>
> *Head of M&A, Italy*

Which sector(s) do you believe will witness the most M&A activity in Europe over the next 12 months? (Please select up to three)



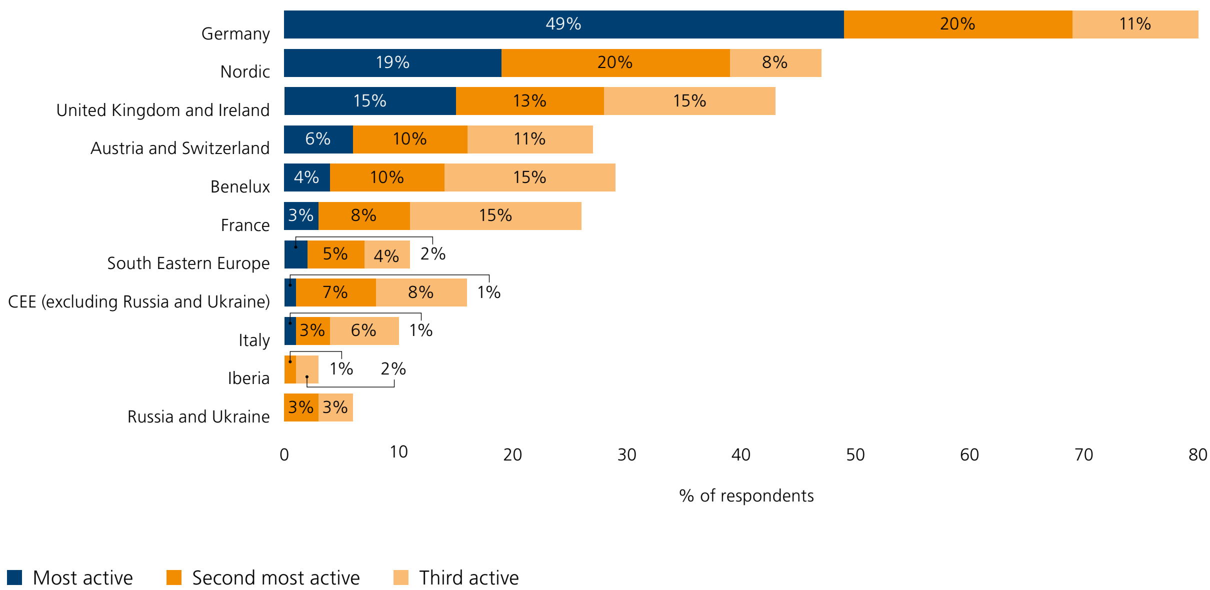
Comparing 2015's responses with those from previous years, this year's results indicate a shift in the industries that are predicted to experience the most M&A over the coming year. In 2014, the largest share of respondents (46%) pointed to industrials and chemicals as the busiest industry, shortly followed by technology, media and telecommunications ('TMT'). This year's cohort predict that TMT will be the most active sector. In 2015, key sectors have seen a market decrease, particularly energy, mining and utilities by 17 percentage points, and transportation by 11 percentage points.

The announced figures correspond with these findings. TMT has seen exponential growth in Europe over the past several years. Comparing the first halves of 2015 and 2012, TMT M&A has grown 20% by volume to 460 deals, and twofold by value to €86.5bn.

In 2014, the European Commission (EC) announced plans to move to a single telecommunications market, prompting the region's players to look across borders for acquisitions. This year has seen a continuation of this trend, along with the emergence of technology and media convergence. Increasingly, we are seeing media companies acquire technology firms, in order to bring platform and system design in house. At the same time, technology firms are buying media companies, in order to gain advertising capabilities.

It is also interesting to note that expectations for the pharma, medical and biotech industries ('PMB') are on the rise. In 2014, only 32% of respondents pointed to PMB to be among the busiest sectors. In contrast, 43% of the current cohort take this view. This reflects the increase in activity in the sector over the past few years: comparing the first six months of 2012 with 2015, dealmaking rose by 23% YoY by volume. PMB firms, particularly big pharma, have looked to realign their portfolios in order to remain competitive, while also looking to acquire later-stage drugs.

Which region/country do you believe will witness the most M&A activity in Europe over the next 12 months? (Please rank top three, where 1 = most active and 3 = third most active)

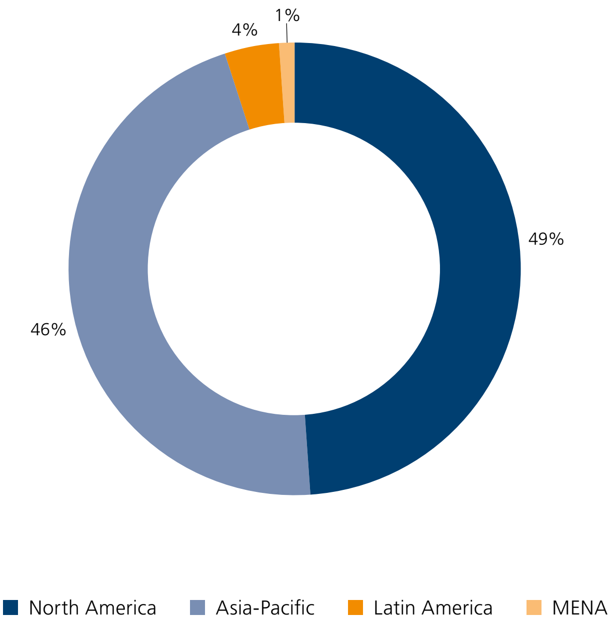


Respondents overwhelmingly point to Germany as the most active country for M&A. While Germany is among the most stable eurozone economies, with GDP growth forecast at 1.9% in 2015, it is not the busiest market for M&A. In 2014 and H1 2015, Germany accounted for 13% of M&A by volume, making it the third largest market for M&A in Europe. Compared to the 2014 results, 49% of respondents now view Germany as the most active, compared to only 21% in 2014. Considering their disjunction from announced M&A figures in H1 2015, these figures likely indicate faith in Germany's continued growth, and the desirability of German assets.

Instead, in H1 2015, the UK was the most active geography for M&A, accounting for 23% and 35% by volume and value, respectively. Several of the year's biggest deals also had UK-based targets, including Royal Dutch Shell's planned €74.5bn acquisition of BG Group. It is thus somewhat surprising that only 15% of respondents expect the UK and Ireland to be the most active region. Also, only 3% of respondents point to France as the busiest geographies for M&A, given that it is one of the most active markets by volume and value. However, this perception may be due to the relative decline in French M&A over the past year. In H1 2015, activity in France decreased by 11% YoY in volume and 44% in value over the same period. There is a similar picture in Italy and South Eastern Europe: while both accounted for 6% and 3% of M&A by volume in 2014, only 1% and 2% of respondents, respectively, point to them as the busiest M&A targets.

On the other side of the coin, it is interesting to note that 6% of respondents consider Ukraine or Russia (given the results to Question 3 in this study) as the second or third most active regions for M&A activity in the coming 12 months.

Do you expect cross-border M&A into Europe (non-European acquirers) to increase over the next 12 months ?



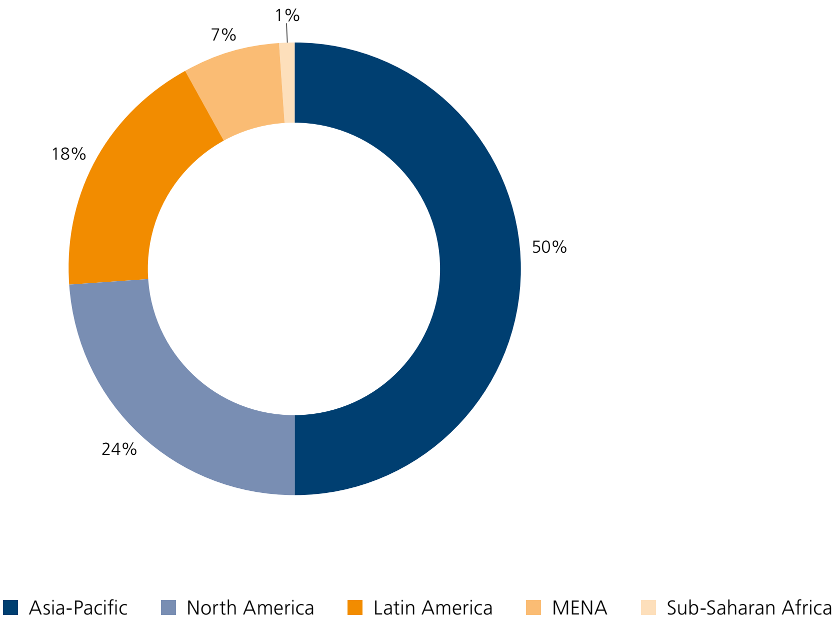
In this edition of the research, 90% of respondents expect cross-border M&A to increase. When considering popular target markets, respondents clearly indicate that North America (49%) and Asia-Pacific (46%) will be the most active inbound acquirers.

While it is the case that most inbound acquirers are from North America and Asia-Pacific, the US is far and away the most active inbound acquirer, accounting for 62% of inbound deals by volume and 41% by value in H1 2015.

It may be the relative novelty of outbound activity, or the attention that Asia-Pacific outbound deals garner that has had a distorting effect on respondents' perceptions. Indeed, the majority of comments focus on Asia-Pacific corporates' – particularly those based in China – interest in European assets. For instance, an SEE-based Director of Finance says: "China will be the most active acquirer into Europe; the cash-rich acquirers will target small and medium enterprises within the European market to get access to new synergies and technologies that can help them innovate more and explore new market opportunities."

It is clear that Asia-Pacific outbound activity is a growing trend – activity has increased 13% by volume and nearly twofold by value when comparing the first six months of 2014 and 2015.

And which will be the most active target region for European acquirers over the next 12 months?



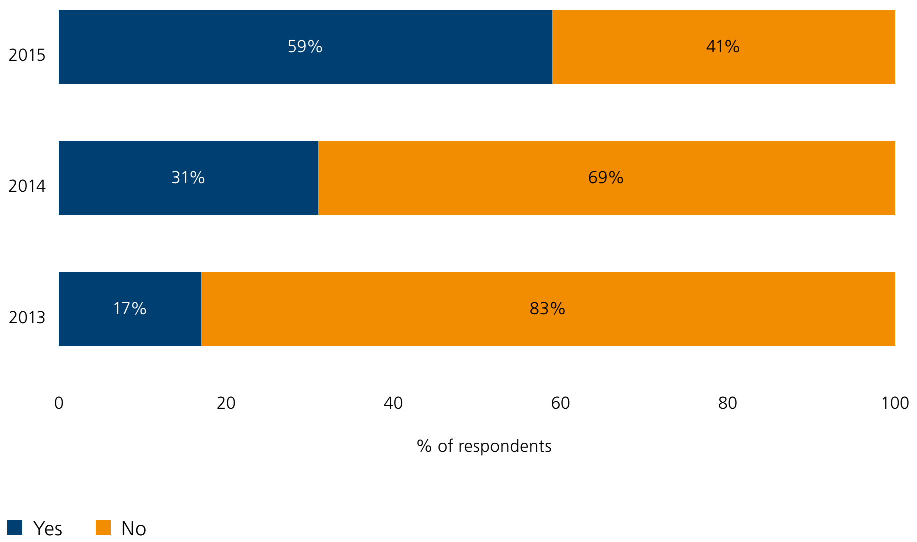
Similarly, 50% of respondents expect that the most active target region for European acquirers will be Asia. Respondents again point to China and India specifically as popular destinations. A comparatively slim 24% point to North America as the most active target region.

Again, this represents a stark contrast with the actual figures: the US is in fact the largest target region for European buyers, and accounted for 46% and 81% of European outbound volume and value, respectively, in H1 2015. In real terms, there were 182 deals valued at €66.3bn. Meanwhile, for China-based M&A with European buyers, there were only 11 deals valued at €545m.

It also seems that respondents are underestimating the relative attractiveness of Latin America, with only 18% pointing to it as the most active target region. However, following the US, Brazil is the most active target market for European outbound M&A, with 30 deals worth €3.9bn.

> There are many countries within the Asia-Pacific region that have eased regulatory policies, making it more effective for European acquirers to focus on operational development.
>
> *Head of strategy, Spain*

Has your firm adapted its M&A strategy in response to slower European growth in the years since 2009?

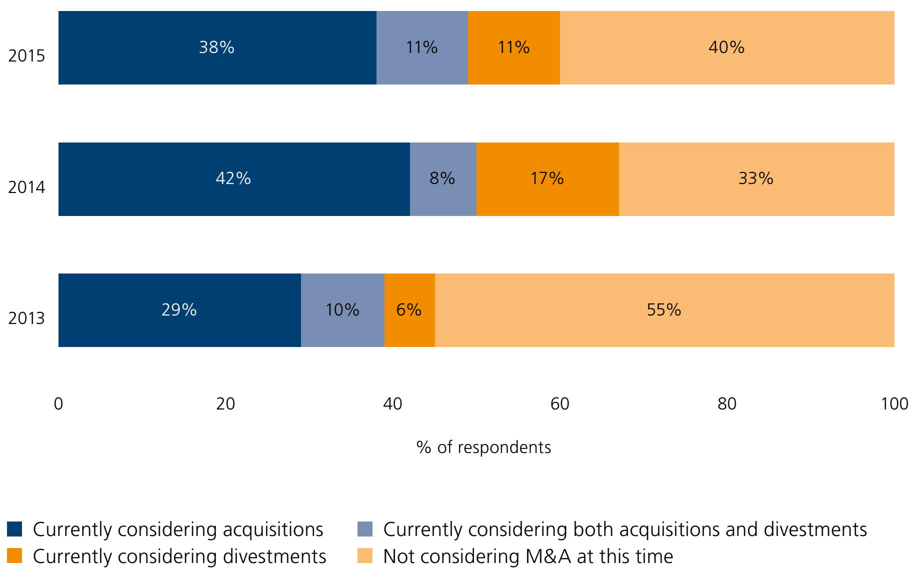


Comparing 2015's findings with previous years, it is clear that respondents are taking a more proactive approach to their M&A strategies. In 2013, a slim 17% of those surveyed had adapted their M&A strategies to slower growth. In 2015, this proportion has risen to 59%.

This shift is likely due to respondents' firms recognising slower growth in Europe as the 'new normal', rather than a downturn that they can wait out. In the years since 2009, GDP growth in the euro area has remained muted or negative, with 2015 forecast to be the first year with growth over 1% since the downturn.

Accordingly, respondents' comments often describe the way in which their firms have made far-sighted, defensive adjustments to business strategies as a result of protracted slow growth in Europe. A Chief Financial Officer based in the CEE explains: "In 2009, we learned how quickly the business climate could change and how it could impact us. As a result, we took precautionary measures by growing our business in other regions and sectors."

Where does M&A currently fit into your corporate strategy?



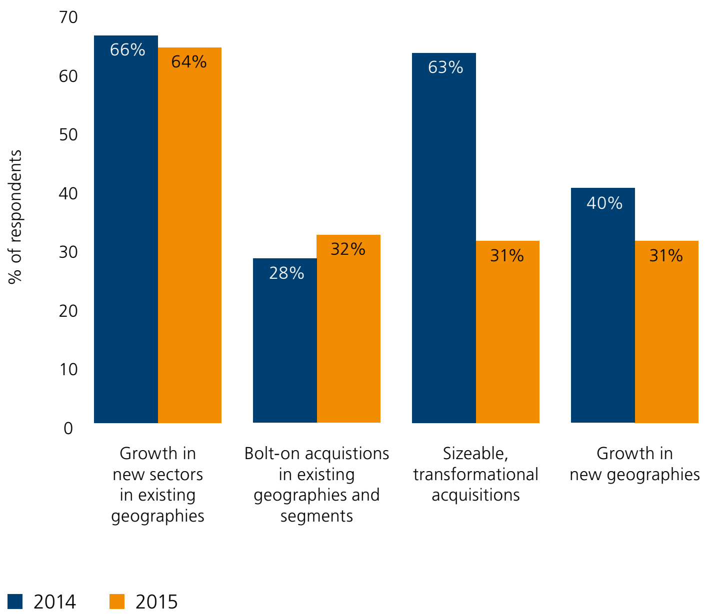
When comparing M&A strategies across the three studies, a similar pattern emerges, particularly between 2014 and 2015. Still, relative to 2013, appetites for M&A have clearly increased: while there were 39% of respondents in 2013 contemplating an acquisition or both acquisitions and divestments, 49% of respondents in this year's cohort have similar strategies. Further, a smaller pool of respondents is not considering M&A at all, with 40% in 2015 compared to 55% in 2013.

These findings broadly reflect the current M&A climate. While 2015 has seen M&A recede somewhat from corporates' agendas relative to 2014, this year has nonetheless broadly continued the recovery in the years since 2013. While M&A has declined by volume in H1 2015, dealmaking has risen 3% by volume and 64% by value when comparing H1 2015 with the same period in 2013.

Respondents' comments also reflect an underlying optimism. For instance, a France-based Director of Finance states: "We are currently considering acquisitions as our business is well developed and we have consistently made investments that boost value and help to record better earnings. Our balance sheets show an upward trend."

> Our sector has been facing competition in performance with technology making its mark globally. We will do deals with targets that have a technological edge to lead the market and stay competitive.
>
> *Director of finance, Germany*

If you are considering acquisitions, what is the motivation for this? (Please select all that apply)



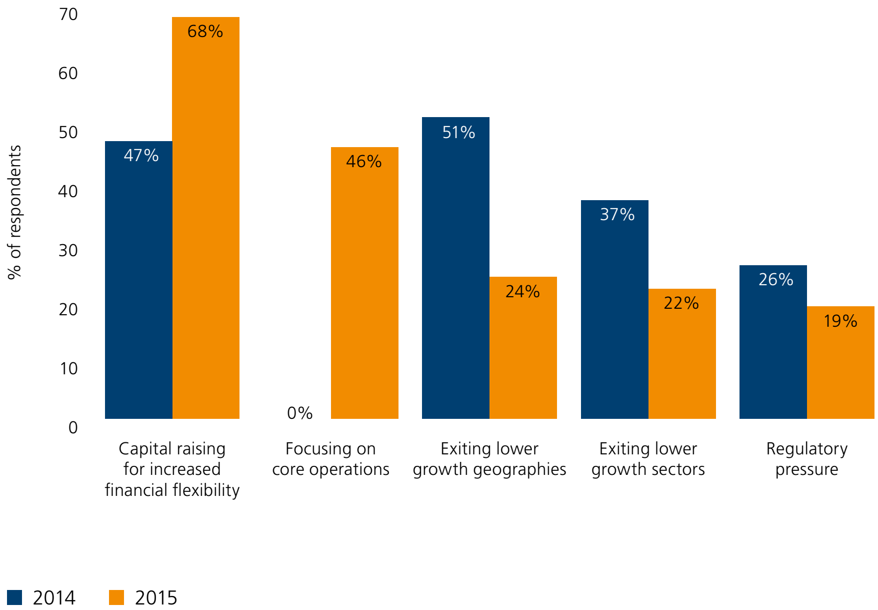
Looking at the 91 respondents who are considering acquisitions, findings are broadly consistent with the previous year: the leading motivation for acquisitions continues to be growth in new sectors in existing geographies. This appears to point towards a need to diversify, while remaining within familiar business, financial and legal climates.

A Vice President of Strategy based in France elaborates: "Our strategy is based on diversification into new business areas in instances when we have the right partner willing to help throughout the process. We are taking time to understand target businesses and are pursuing our goals of investing in different sectors."

Still, there is one noticeable difference between 2015 and the previous years' findings: the share of respondents considering sizeable, transformative acquisitions has decreased. While 63% of respondents in 2014 said this was one of their main drivers, only 31% do so in 2015. This may point to more conservative M&A strategies, and a reluctance to undertake blockbuster transactions when there is an uptick in volatility in the marketplace.

> We have chosen the route of acquisitions to expand in other regions so that we can diversify our resources and expect better value for the same activity.
>
> *Director of finance, Spain*

If you are considering divestments, what is the motivation for this? (Please select all that apply)

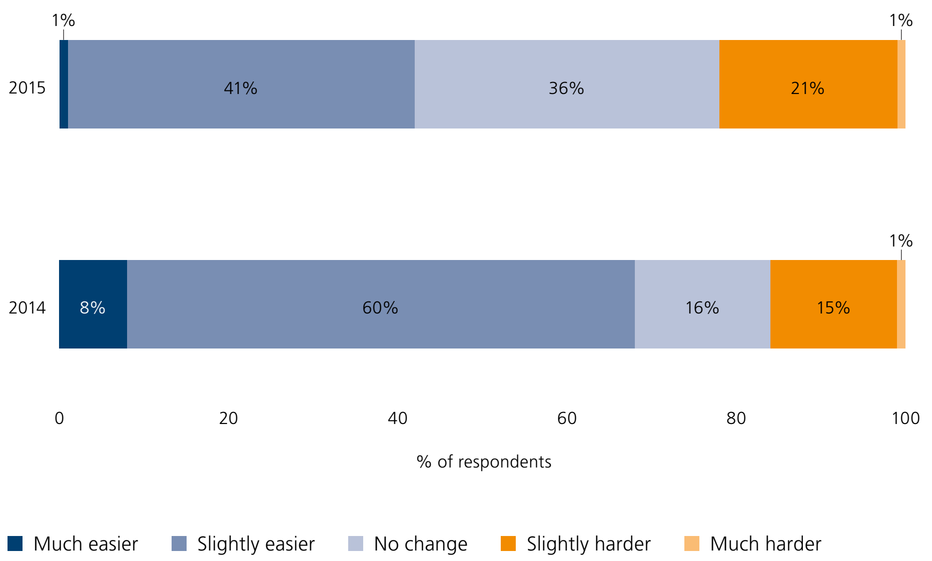


Of the 63 respondents considering divestments, the largest share (68%) say that this is due to capital raising for increased financial flexibility. A France-based Chief Financial Officer explains: "Since we are unable to tap the potential of some assets, we are looking to divest them and use that capital to invest in new strategic acquisitions in other geographies. Here, we hope to attain better returns."

Interestingly, only 24% of respondents in this year's survey point to exiting lower-growth geographies as the main motivation behind divestments. This compares to 51% of respondents in last year's edition. This may be because respondents have already completed divestments in non-core markets.

> In the coming years, we will focus more on the core operations of the business and are downsizing the number of entities to reduce the pressure on the cash-flows and the extra expenses made on these non-core areas.
>
> *VP of strategy, Finland*

How do you expect financing market conditions to be in 2015 compared to 2014?



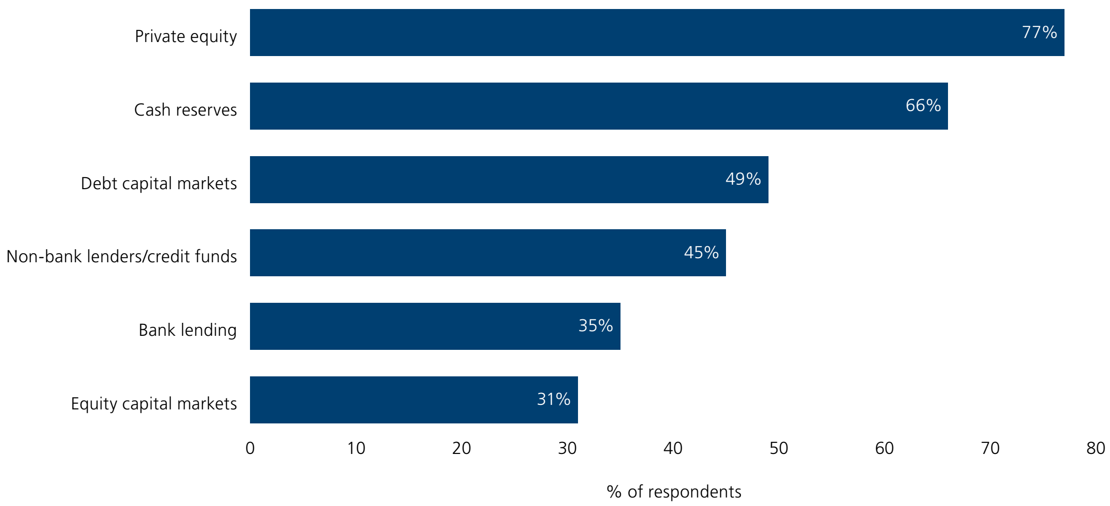
Respondents are cautiously optimistic about financing conditions in 2015. According to the largest share of respondents (41%), financing conditions are slightly easier with a further 1% saying that they are much easier. At 36%, the second largest share of respondents anticipate no change from 2014.

These findings ring true with the activity seen in the marketplace: the first months of 2015 have seen an easing of credit standards on corporate loans. For corporates of a certain scale and financial profile, bond markets continue to be inexpensive sources of debt. Further, alternative lending in Europe is estimated to have grown by over 40% in the past year, and are increasingly seen as a viable alternative to bank financing.

This increasing diversity in lending options is reflected in respondents' comments. "Alternative financing has emerged significantly in the European market, making it easy for businesses to avail funds for development. The reduced pressures on banks has also led to an increase in the lending activity from their end," states a UK and Ireland-based Director of Corporate Development.

Still, 22% of respondents say that financing is slightly or much harder. Several respondents point to political uncertainty as the source of decreased financing availability. A France-based Director of M&A says: "Financing is still not easily available. Firms looking to invest are being rejected by financial institutions as economic and political uncertainty mounts. This is creating huge challenges for the M&A environment."

What sources of financing do you think are the most available to corporates?



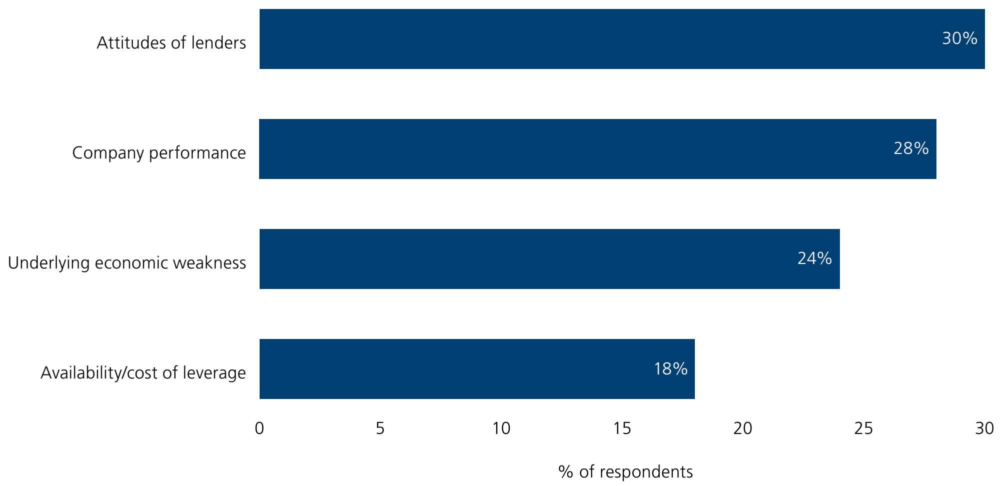
Over three-quarters of respondents point to PE as among the most available sources of financing. This is somewhat curious, given that M&A deals are typically financed with a combination of bank debt, cash reserves, and for credit-worthy businesses, capital markets. In H1 2015, European PE activity was also depressed by volume, although it saw increases in value.

Still, a number of respondents say that PE is the most available source of funding for troubled businesses that would not otherwise have access to financing. An Italy-based Vice President of M&A explains: "PE investors are keen on investing in EU-based distressed businesses, and have proven strategies for transforming businesses. At present, they are the most available source of capital to corporates."

There has also been growth in respondents pointing to non-bank lenders and credit funds, with a 22 percentage point increase when comparing 2015 with 2014. Meanwhile, only 35% say that bank lending is the form of financing most available to corporates, compared to 61% in 2014. While this finding perhaps overstates the actual contraction in bank lending, it may indicate that corporates are becoming increasingly creative when looking for financing opportunities.

> Debt capital markets will offer higher benefits than other fund providers and at the same time will outline a repayment plan which may not be very difficult for businesses to adhere to.
>
> *Managing director, Italy*

What do you view as the greatest challenge to financing acquisitions in the next 12 months?

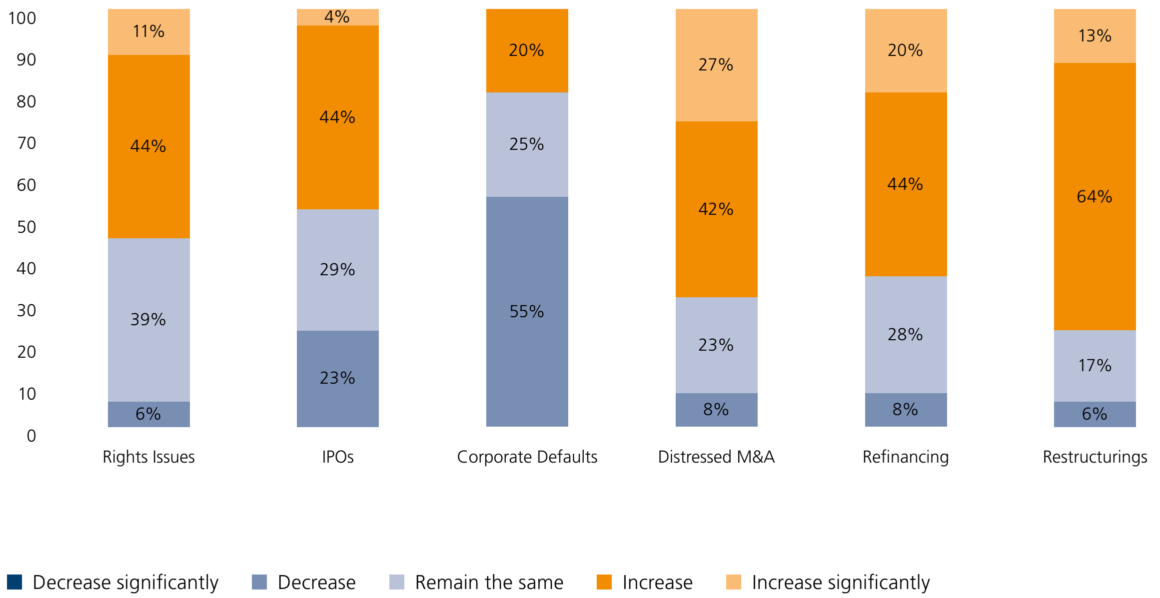


At 30%, the largest share of respondents say that the biggest challenge to financing acquisitions in the next year is the attitude of lenders. This is closely linked to the second and third greatest challenge of financing, company performance (28%) and underlying economic weakness (24%).

A number of respondents describe lenders' concerns over poor company performance, resulting in restrictive lending practices. A CEE-based Director of M&A says of this trend: "Lenders' attitudes and their consistent disappointment with their investments' performances are the biggest challenges to financing acquisitions."

> Financing conditions have changed as banks and lending institutions are under pressure from the regulatory and political end and this is accounting for the underlying economic weakness in the European region and reducing the chance of survival.
>
> *Director of finance, Poland*

For each of the following transaction types, please rate your expectations for activity over the next 12 months



According to respondents, the transaction type that is most likely to increase in the coming year is restructuring (77%). While this finding may indicate underlying distress in the market, respondents say that this is due to businesses looking to adapt to long-term, structural changes in the marketplace: "Restructuring and operational improvements will increase significantly in the next 12 months. Firms are aggressively targeting growth areas and are putting in efforts to regain their business value. Most transactions will be related to the development of individual operations and business structures," says a DACH-based Chief Financial Officer.

Respondents articulate a similar picture regarding distressed M&A, the transaction type that the second largest share of respondents (69%) expect to increase in the next year. A Director of Strategy based in the CEE explains: "Distressed M&A opportunities will increase and the availability of finance will help drive M&A. Cheaper valuations and technical ability of the European businesses are basically bringing more investors to this region."

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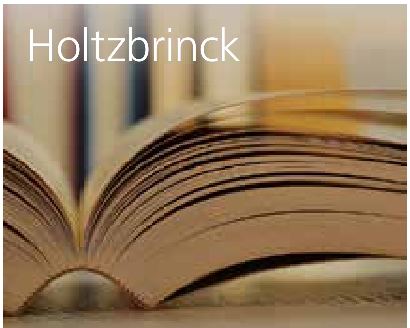
Holtzbrinck



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