

AG's Annual M&A Trends Report

Sector focus

Retail & Consumer

- Surprisingly strong deal environment in context of constraints on consumer wallet
- Vertical integration increasingly a focus, where traditional brand owners look to acquire their own distribution / retail platforms
- Large corporates looking to acquire new insight capability – e.g. Unilever's acquisition of Dollar Shave to access its two way digital customer base engagement



Food & Leisure

- New sub-sectors emerging, such as the sports nutrition category which saw multiple deals in 2017
- "Incubating" was a recurring theme: early stage investment by larger corporates in fast growth start up brands
- Businesses will strong focus on innovation, brand loyalty and active social media presence particularly attractive

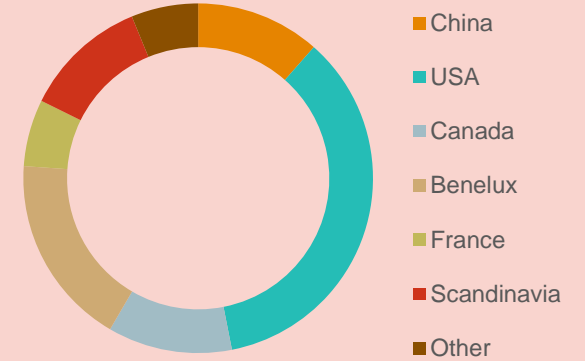


Financial Services

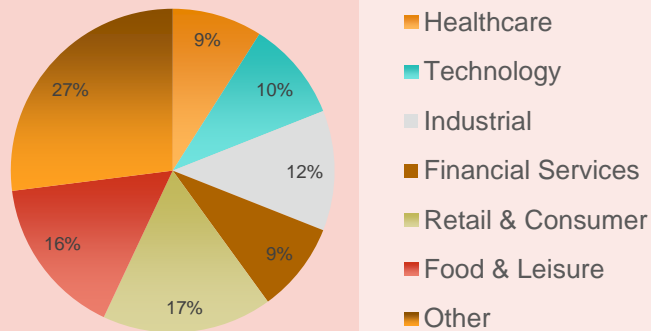
- Strong activity levels driven in part by increasing interest in Fintech companies, with a combination of early stage investments and strategic acquisitions
- 2017 also saw a number of debt portfolio transactions where institutions and investors bought and sold mortgage, credit card and other debt portfolios
- Anticipate further M&A in sector, especially amongst asset managers, as increasing regulation (such as MIFID II) encourages consolidation



Location of overseas investors into UK



Deals by sector



Energy & Utilities

- Increased oil & gas M&A as prices improved and stabilised, and price expectations between buyers and sellers began to converge
- Major oil companies are investing in low carbon assets, a trend which is expected to continue
- Surge in solar M&A in the UK in early 2017, driven by the closure of the subsidy regime
- Steady M&A climate for onshore and offshore wind asset as renewables funds continue to build



Industrials

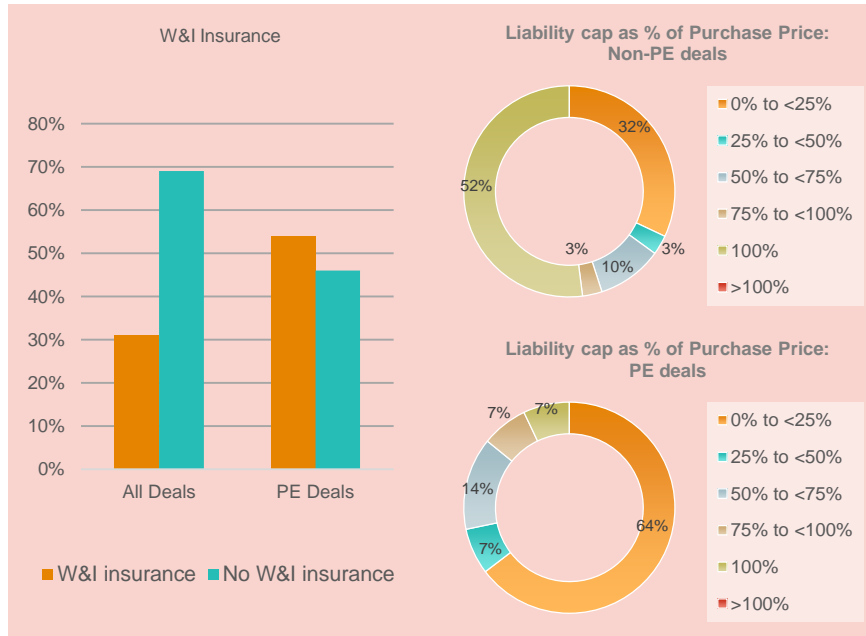
- UK infrastructure projects and house building programme provided a platform for M&A in building products and manufacturing support services
- Corporates from Asia and the GCC looking to exploit international investment opportunities are fuelling activity levels amongst chemicals, automotive and aerospace sub-sectors
- Opportunities arising from strategic decisions to dispose of non-core assets and from distressed situations



International

- Cross-border deals saw a resurgence in 2017, in part driven by fall in Sterling
- However, global trend towards protectionism may impact on ability to execute cross-border deals
- UK and EU have published proposals for greater scrutiny of foreign direct investment
- Chinese government clamping down on outbound investments in certain sectors





Liability caps

- Average liability cap on private equity transactions: 33% of warrantor proceeds and 26% of the total purchase price
- Average liability cap on non-PE deals: 63% of the total purchase price
- Almost 25% of deals saw a liability cap of less than 10% of the warrantors' proceeds

W&I Insurance

- W&I insurance continues to be a growth market
- Increasingly used as a negotiating tool to reduce the % of seller proceeds at risk
- The £1 liability cap, which has become the norm on structured real estate transactions, is now being accepted by underwriters on mainstream M&A deals

Managing risk

- Evaluate the target's existing "business as usual" insurance, which may address some of the buyer's concerns (e.g. defective products)
- Consider extending the cover period in relation to warranties in a W&I insurance policy – typically for little or even no additional cost
- Invest some time in planning and then implementing a targeted diligence process designed around your strategic goals

Indemnities

- 61% of deals involved specific indemnities from the seller(s) in favour of the buyer
- Whilst it may not be possible to protect against every risk, the likelihood of having to give indemnities can be reduced by proactive pre-sale planning and corporate housekeeping
- Indemnities are often required where a business has "gone it alone" rather than seeking advice – e.g. for a share buyback

Public M&A perspective

- The number of firm offer announcements for public companies in 2017 was broadly flat compared to 2016 (46 in 2017 vs 51 in 2016)
- The most active sectors for public M&A offers were Support Services (19%), Financial Services (13%) and Real Estate (13%)
- Whilst there was a marked slowdown in early Autumn, this was followed by a flurry of billion pound plus bids announced in December 2017 and January 2018 – including GVC's £4bn bid for Ladbrokes Coral Group (on which AG are advising)
- The spike in activity in Q4 indicates the first half of 2018 may see an active deal market, but uncertainty over the outcome of Brexit negotiations may act as a brake on activity in H2; in the wake of the referendum public M&A slowed and became focussed on smaller businesses with a predominantly UK rather than international business, and we may well see something similar as the phase 2 negotiations progress
- 2017 saw a marked increase in all share or cash and share public bids compared to 2016, which has continued into 2018 to date; the attraction for shareholders from these bids is the value that can be created through synergies rather than receipt of a knockout bid premium
- As we have seen across many sectors, private equity remained active, being involved in 30% of all UK public M&A - almost exclusively with cash-only bids

