William Blair

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Investment Banking

Targeted Activity by Buyers and Sellers Shapes 2017 Dealmaking

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Merger Tracker

Targeted Activity by Buyers and Sellers Shapes 2017 Dealmaking

Analysis of William Blair's sell-side transactions shows that strategic buyers are highly engaged, buyers of all types are being more selective and doing more up-front work, and targeted processes are yielding highly competitive outcomes.

William Blair's investment banking team continues to see record growth, completing 115 sell-side M&A transactions during the 12 months ending in July 2017 and more than 500 sell-side transactions since 2010. One byproduct of this growth is that it provides us with deeper insights about dealmaking activity and process trends.

In analyzing data related to deal processes, financial sponsor and strategic buyer interest, valuations, and other criteria from our completed transactions, we have identified several distinct trends that are shaping buyer and seller behavior in 2017. In this issue of Merger Tracker, we examine those trends and discuss how they are affecting the dealmaking landscape.

Strategic Buyers Remain Highly Engaged

After several years of P/E ratios expanding faster than GDP and cash stockpiles growing on corporate balance sheets, public companies are becoming increasingly aggressive in their efforts to acquire growth to justify the lofty valuations. We have seen extremely high levels of engagement by strategic acquirers in our sell-side processes over the past year. In 78% of our processes, at least one strategic acquirer attended the management presentation, and 52% of our processes ended with a sale to a strategic acquirer.

In addition to growing levels of confidence in corporate boardrooms and an increasing appetite for acquiring growth, globalization is another trend driving the increased success that strategic acquirers are achieving in our processes. Processes involving companies with a truly global reach favor acquisitions by strategic buyers, and about 43% of our transactions over the past year were cross-border.

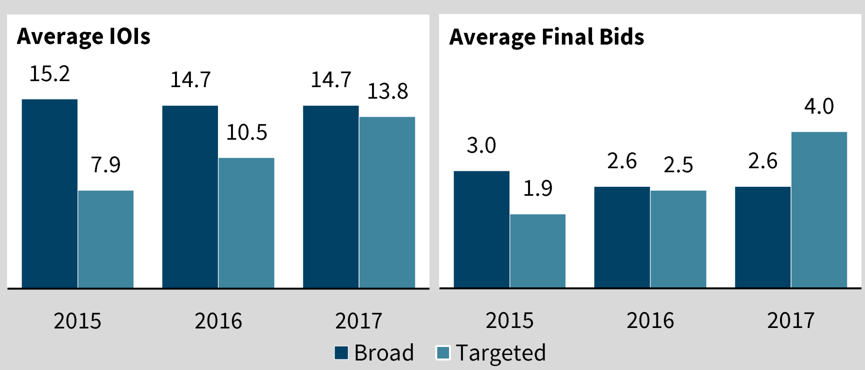
Strategic acquirers are once again being rewarded by public investors. From 2012 to mid-2015, public acquirers saw their share prices jump 3% to 4%, on average, on the day after an acquisition was announced. This was the first stretch of day-after increases since 1995. In the second half of 2015 through the end of 2016, however, activity reverted to the long-term trend of day-after decreases for acquirers. But so far in 2017, acquirers are seeing a 1% day-after increase.

Midcap M&A Valuations See Significant Expansion

Globally, across all deal sizes, median M&A valuations have been flat over the last 12 months relative to 2016, remaining at 9.5x EBITDA. Among U.S. midcap deals, however, valuations

Bidding Behavior: Targeted vs. Broad Processes

As recently as 2015, broad M&A processes conducted by William Blair generated significantly higher numbers of both indications of interest (IOIs) and final bids than targeted processes did. But that gap has narrowed considerably in terms of IOIs and reversed itself in terms of final bids. These trends reveal how, in today's environment, well-conducted targeted processes that involve the right potential buyers can be every bit as competitive as broad processes.



Source: William Blair's Mergers and Acquisitions market analysis have risen to 11.5x, the highest level in more than a decade. Against this backdrop, valuations for our transactions have increased a full turn since 2016. In addition to the tailwinds of healthy debt markets and aggressive behavior by financial sponsors and strategic acquirers, this valuation uptick among our deals has been driven primarily by premiums paid for high-quality acquisition platforms, particularly in the services industry, and technology companies.

Thus far in 2017, the average EBITDA valuation for our transactions in the services industry have increased nearly three full turns. This is a function of the fact that many of the companies we have represented have already proven their ability to make accretive acquisitions. Private equity firms today are willing to pay a premium for established acquisition platforms. These types of transactions are a way for financial sponsors to put additional capital to work through subsequent tack-on acquisitions at lower multiples, which allows buyers to "average down" the cumulative price they pay.

As Buyers Get More Selective, Processes Become More Targeted—and Competitive

In today's highly competitive M&A landscape, buyers are becoming more selective about their acquisition targets and doing more up-front work to determine whether they want to participate in a process. Often before a process even kicks off, buyers are engaging with potential target companies and evaluating sectors by attending conferences, meeting with management teams, and conducting industry research. Before a process reaches the indication of interest (IOI) stage, many buyers are conducting meaningful due diligence to determine whether they have an "angle" or a feasible "path to victory."

In response to this trend, we are increasingly conducting targeted processes on behalf of our sell-side clients. Because the most serious and capable buyers have already done much of their homework, we are able to narrow our processes to focus on the buyers who are prepared to fully participate. We have found that more narrow processes can empower the most serious buyers to fully engage because there is less risk that a less-informed buyer will make an untenable, outlier bid in the early stages and disrupt the flow of the process.

Despite engaging with a narrower field of potential buyers, our targeted processes in 2017 have proved to be no less competitive—and in many cases, more so—than broader processes. As recently as 2015, our targeted processes resulted in 48% fewer IOIs and 37% fewer final bids than our broad processes. In 2017, however, the gap in terms of IOIs fell to just 6%, and targeted processes actually yielded 54% more final bids than our broad processes did.

Not surprisingly, the amount of up-front work being done by buyers, as well as the increased use of aggressive pre-emptive bids, is resulting in shorter timelines for deal processes. Recently, we have been completing highly competitive, global processes that have been closed on average within as little as three or four months after kickoff. A dramatic increase in the use of vendor due diligence and representations and warranties insurance has meaningfully streamlined the due diligence and negotiation process. Also, pre-emptive bids have become more aggressive in 2017; the typical pre-emptive revised bid now includes the point price, a negotiated and marked-up sales and purchase agreement, complete business and financial diligence, near-complete confirmatory diligence, and negotiated management terms, as well as a 24- to 48-hour time frame for signing.

To learn more about these and other trends that are shaping dealmaking activity, please do not hesitate to contact us.

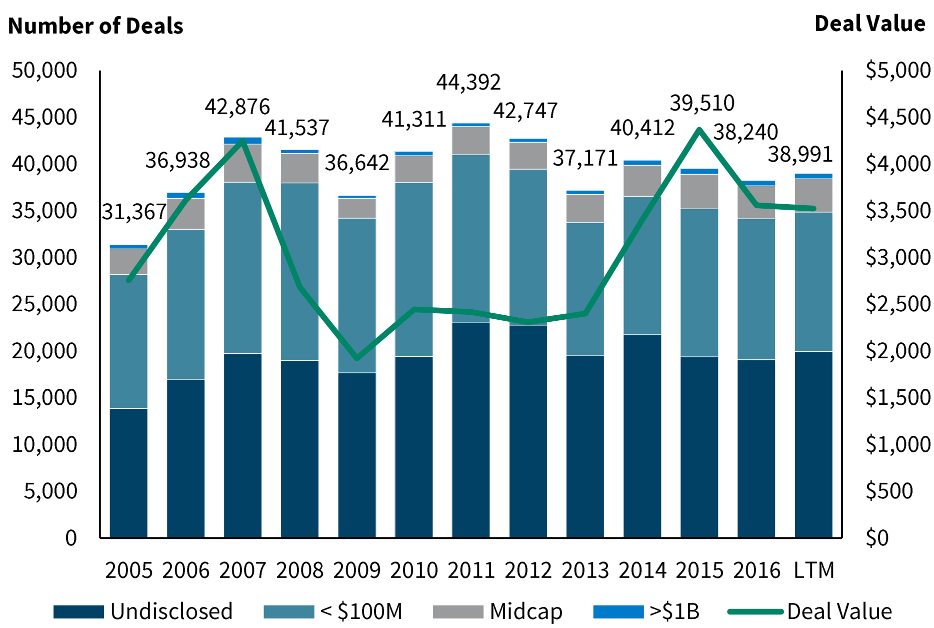
Merger Tracker

We look behind the numbers to examine the market dynamics that are driving trends in the dealmaking landscape.

Global M&A

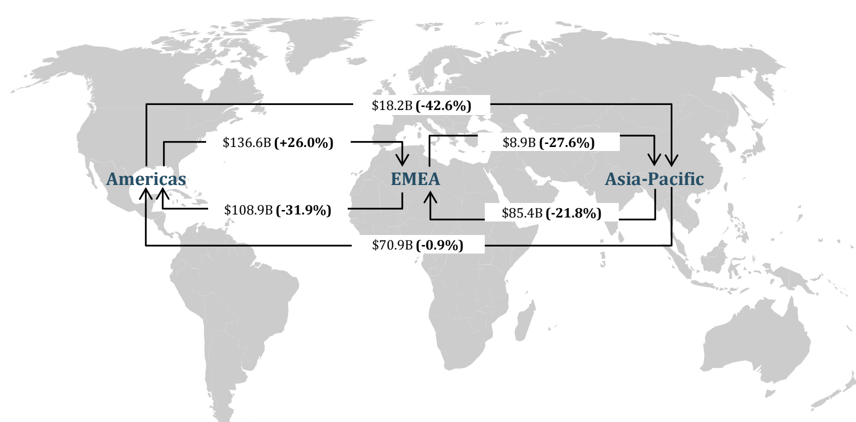
Across all deal sizes globally, M&A activity in terms of unit volume is up 4.0% over the last 12 months (LTM) while dollar value is down 1.2%. In the midcap space, LTM volume is up 2.6% and value is up 3.4%. Against this backdrop of relatively flat dealmaking activity, William Blair has seen significant growth. For the first eight months of 2017, our sell-side M&A activity increased 28% in terms of volume and 130% in terms of dollar value.

Global M&A – Volume and Values by Deal Size *($ in billions)*



Source: Dealogic

Cross-Border M&A Dollar Flows
($ in billions; % change since Q3 2016)

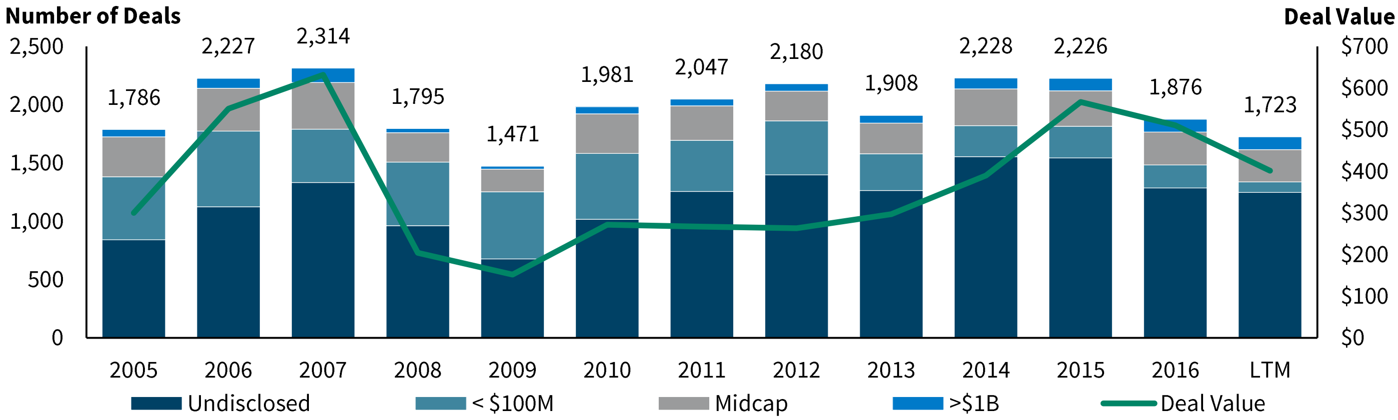


Source: Dealogic

Private Equity and Debt Capital Markets

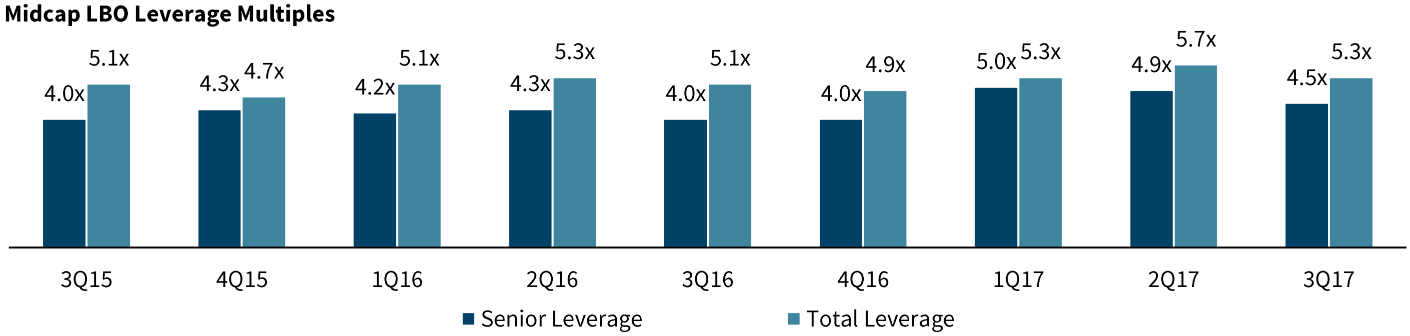
Private equity activity in the United States has continued to pull back from 2015's record levels, but the pace of dealmaking by financial sponsors remains robust, supported by healthy debt markets. Leverage multiples and M&A loan volume decreased slightly during the third quarter, but the debt market continues to be very favorable for borrowers.

U.S. Private Equity Activity
($ in billions)



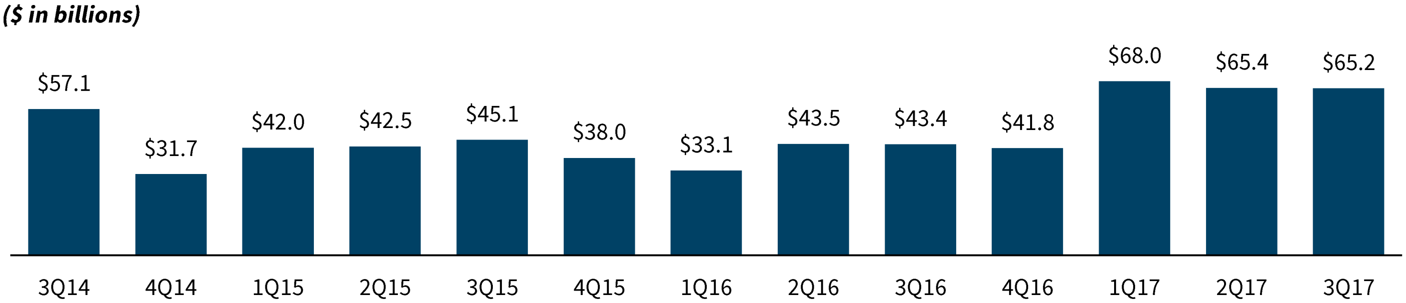
Source: Dealogic

Midcap LBO Leverage Multiples



Source: William Blair Proprietary Midcap LBO Financing Database

M&A Loan Volume
($ in billions)

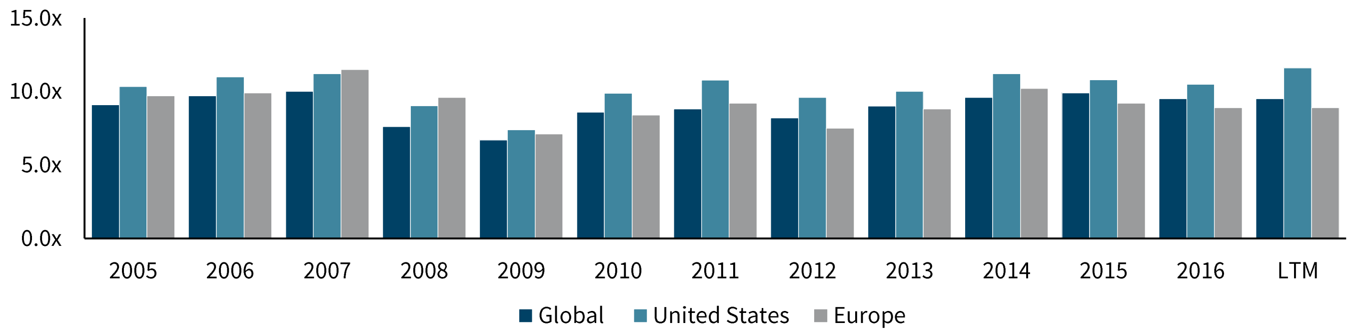


Source: S&P's LCD

M&A Valuations

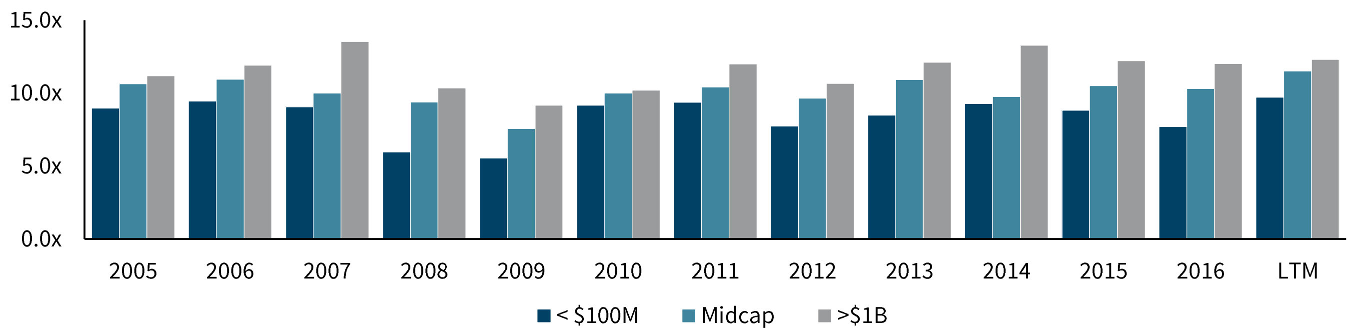
Globally, across all deal sizes, median M&A valuations have been flat, at 9.5x, over the last 12 months relative to 2016. In the United States, valuations are up more than a full turn, rising from 10.5x in 2016 to 11.6x over the last 12 months. U.S. midcap valuations have risen to 11.5x, the highest level in more than a decade.

All Deal Sizes – Global, United States, and Europe
(EV/EBITDA)



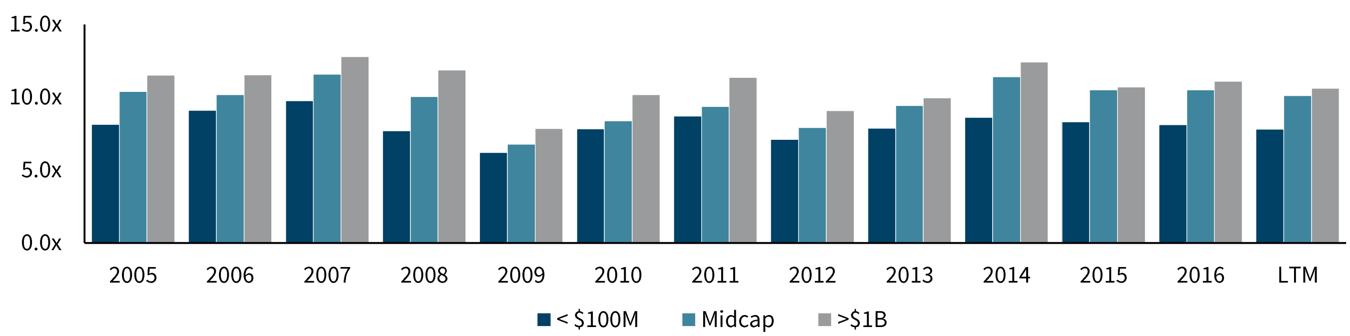
Source: Dealogic

U.S. – By Deal Size
(EV/EBITDA)



Source: Dealogic

Europe – By Deal Size
(EV/EBITDA)



Source: Dealogic

Our significant transaction experience across broad advisory and capital markets offerings has earned William Blair a reputation for orchestrating highly effective processes that generate outstanding outcomes for our clients.

Recent transactions include:

$605,000,000 TRC The Ritedose Corporation has been acquired by AGIC / Humanwell September 2017	$850,000,000 CERTARA has been acquired by EQT August 2017	$440,000,000 Best Doctors has been acquired by TELADOC July 2017
$1,125,000,000 IDERA has been recapitalized by HGGC June 2017	Not Disclosed inet has been acquired by Castik Capital April 2017	$147,000,000 UNIRUSH has been acquired by green dot February 2017
€170,000,000 TRISTONE has been acquired by 中鼎橡塑 Zhongding Rubber-Plastic February 2017	$2,500,000,000 INVESTCORP Caisse de dépôt et placement du Québec has acquired AlixPartners January 2017	$3,800,000,000 inVentiv health has been acquired by Advent International Global Private Equity November 2016

With more than 150 senior bankers around the world, William Blair has completed more than 2,000 advisory and financing transactions totaling more than $200 billion in value for our clients*

Brent Gledhill
Global Head of Investment Banking
+1 312 364 5475
bgledhill@williamblair.com

Mark Brady
Global Head of Mergers & Acquisitions
+1 312 364 8853
mbrady@williamblair.com

Andrew Jessen
Head of North American Mergers & Acquisitions
+1 312 364 5390
ajessen@williamblair.com

Matthew Gooch
Head of European Banking
+44 20 7868 4478
U.S. Voicemail: +1 312 364 5425
mgooch@williamblair.com

* In the past five years as of January 31, 2017

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William Blair's investment banking group enables corporations, financial sponsors, and owner/entrepreneurs around the world to achieve their growth, liquidity, and financing objectives.

Drawing on the collective intellectual capital and deep sector expertise of a global team that reaches across more than 15 cities on four continents, the investment banking group brings a rigorous and innovative approach to corporate board advisory projects, mergers and acquisitions, and equity and debt financing. From 2012 to 2016, the team advised on more than $230 billion in completed transaction volume.