William Blair

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Investment Banking

Speed and Certainty Become Powerful Differentiators

Merger Tracker

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Speed and Certainty Become Powerful Differentiators

Many buyers today are using speed and certainty of close to gain an edge in highly competitive deal processes.

From a volume perspective, dealmaking slowed during the first three quarters of 2018, with the number of transactions completed globally falling 17.4% on a year-over-year basis. But the total value of M&A transactions completed in the first nine months of the year increased 30.0%, reflecting rising valuations and the prevalence of larger deals.

Accommodative debt markets, continued economic expansion, and aggressive behavior by financial sponsors continue to fuel higher multiples. Valuation trends have been particularly strong in the technology and healthcare sectors.

In an environment where robust valuations are virtually a given for high-quality companies, speed and certainty of close have become increasingly important tools that bidders can use to differentiate themselves in hypercompetitive deal processes. In addition to preemptive bids becoming more common, buyers are using a host of tactics that allow them get to the finish line faster and provide more certainty in their ability to do so—characteristics that are appealing to sellers in any environment, but especially at a time when many believe we may be in the later stages of the current economic expansion and bull stock market.

In this issue of *Merger Tracker*, we examine some of the tools commonly used today to accelerate the dealmaking process and highlight recent transactions that William Blair has facilitated on compressed timelines.

Tactics to Accelerate Dealmaking Processes

Potential buyers are using an array of tactics to enhance the speed and certainty of their bids. While most of these techniques are not new, they have become much more common in 2018 as bidders look to gain an edge over a field of other aggressive potential buyers.

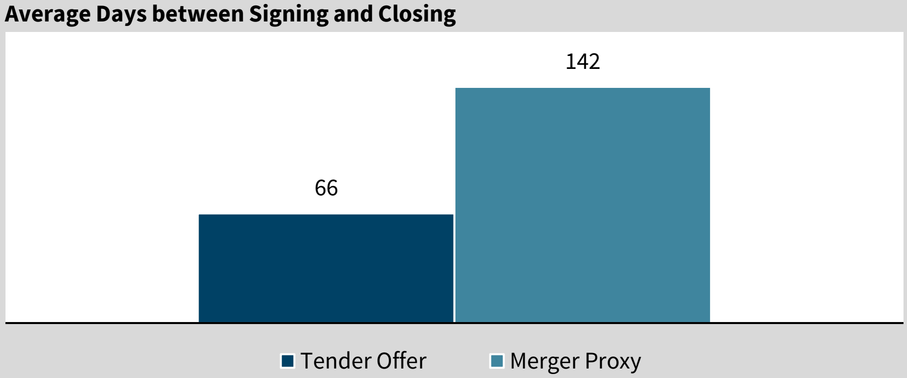
Securing financing earlier in the process: Potential buyers are talking to lenders and lining up financing much earlier in the sale process. A decade ago, buyers would typically wait to secure financing until they had won the bid and gained exclusivity. Starting a few years ago, however, it became common to see this work being completed by all of the final bidders. But today, it's not unusual to see several bidders begin working with lenders in earnest during management presentations and then have their financing nearly completed by the time final bids are due.

Growing adoption of reps and warranties insurance: Once viewed as an optional tool to enhance a bid, representations and warranties insurance has become table stakes in today's M&A environment. By shifting risk from the seller to an insurer, reps and warranties insurance allows for faster, smoother negotiations. While the popularity of this insurance has

Tender Offer vs. Merger Proxy: Average Sign-to-Close Span

One way that acquirers are looking to expedite the closing of acquisitions of public targets is by using tender offers rather than merger proxy processes, which on average take more than twice as long to close after the signing of the merger agreement.

Average Days between Signing and Closing



Source: FactSet

been driven by financial sponsors, many strategic buyers have begun using it as well—an acknowledgment of their need to move quickly, especially when private equity firms are involved in the bidding.

Front-loading the diligence work: Buyers today are completing much of their diligence work well before a formal process officially launches and spending large sums on third-party legal and accounting fees early in the process. Not only does this signal to the seller that the buyer is serious and well-positioned to move quickly, these up-front investments also allow buyers to be more selective in identifying targets for which they have a unique angle to winning the bidding process.

Acquisitions via tender offer: When the target is a publicly traded company, one way that buyers are looking to expedite the closing of the transaction is by using a tender offer rather than a traditional proxy process. Because tender offers don't require an extensive SEC review period, proxy solicitation process, and subsequent shareholder meeting, tender offers can be completed much faster than proxy processes. According to FactSet, since 2010 acquisitions completed via tender offer closed an average of 66 days after signing of the merger agreement, compared with an average of 142 days for transactions completed via merger proxy.

Creating extensive integration plans: Today, many bidders create fully baked integration plans well before winning the bid. This gives sellers more visibility into the bidder's vision and plans for the company post-merger.

Sellers Prepare to Run Fast

While the seller still ultimately controls the pace of a deal process, sellers need to understand that an accelerated process can produce valuable benefits for them. Thus, they should prepare to "run fast" once a process launches. This means that much of the preparation work will be completed before a process kicks off.

In many cases, this will involve identifying and meeting informally with logical potential buyers during the year leading up to a process. Sellers should also look to get ahead of the game by preparing items such as the data room, quality-of-earnings report, management agreements, and other contracts before launching a process.

Recent Transactions Highlight the Need for Speed

William Blair has completed several recent transactions in which the ultimate buyer's ability to enhance its speed and certainty of close played a major role in securing the asset.

symplr–Clearlake Capital Group: In October, William Blair advised healthcare governance risk and compliance software provider symplr on its sale to Clearlake Capital Group. The private equity firm was able to win the bidding preemptively and position itself ahead of other financial sponsors and strategic buyers by offering an aggressive, seller-friendly contract with high levels of financing certainty.

MatrixCare–ResMed: In November, William Blair advised post-acute-care technology provider MatrixCare on its $750 million acquisition by ResMed. By making a preemptive offer based on an extremely attractive forward-looking valuation, ResMed persuaded MatrixCare to forgo a broader process. The transaction, which included complex diligence and negotiation elements, was completed in less than four weeks from the pre-diligence indication of interest to signing.

ConvergeOne–CVC Capital Partners: In November, William Blair advised global IT and managed services provider ConvergeOne Holdings on its sale to CVC Capital Partners for $1.8 billion. The last stages of this process were completed in four days, with final bids being submitted on a Friday and the deal being announced the following Tuesday.

ConvenientMD–Starr Investment Holdings: In November, William Blair advised New England-based urgent care provider ConvenientMD on securing a significant investment from Starr Investment Holdings. One of the ways Starr was able to differentiate its offer was by structuring the acquisition as a simultaneous sign-and-close.

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

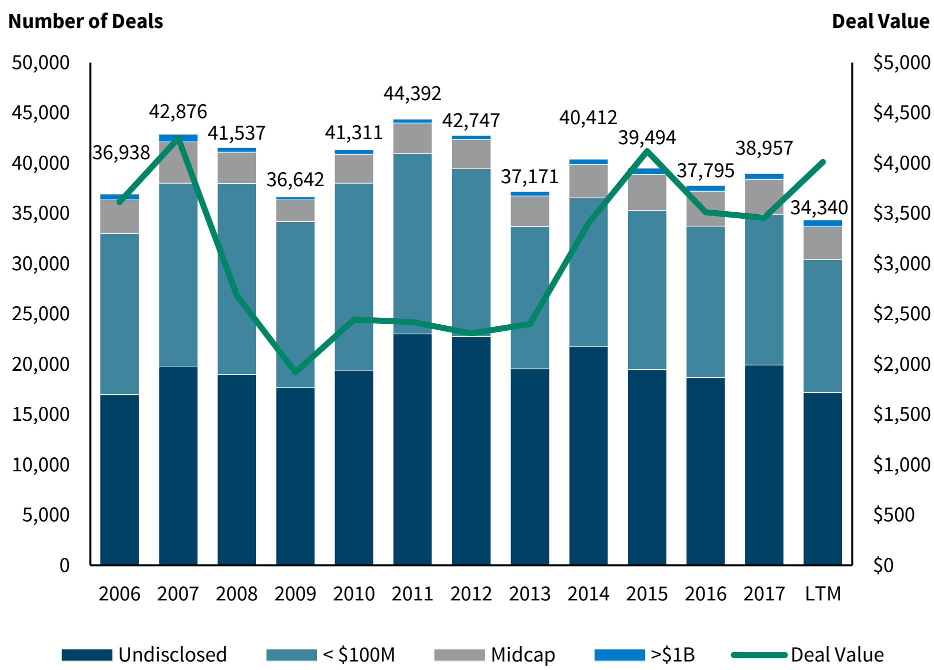
Merger Tracker

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

Global M&A

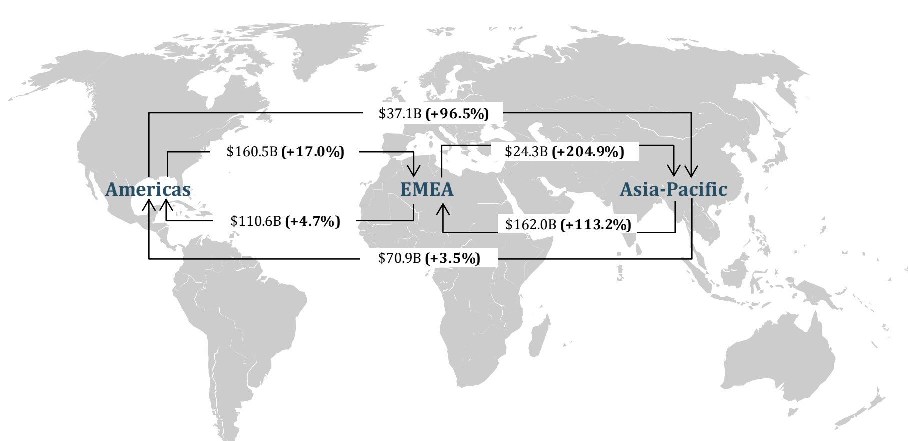
For the 12 months ending on September 30, 2018, the number of transactions is down 13.5% relative to 2017's full-year totals. But total deal value for the last 12 months is up 17.4%, reflecting rising valuations and the prevalence of larger deals in today's hypercompetitive dealmaking environment.

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



Source: Dealogic

Cross-Border M&A Dollar Flows
($ in billions; % change since 2017)

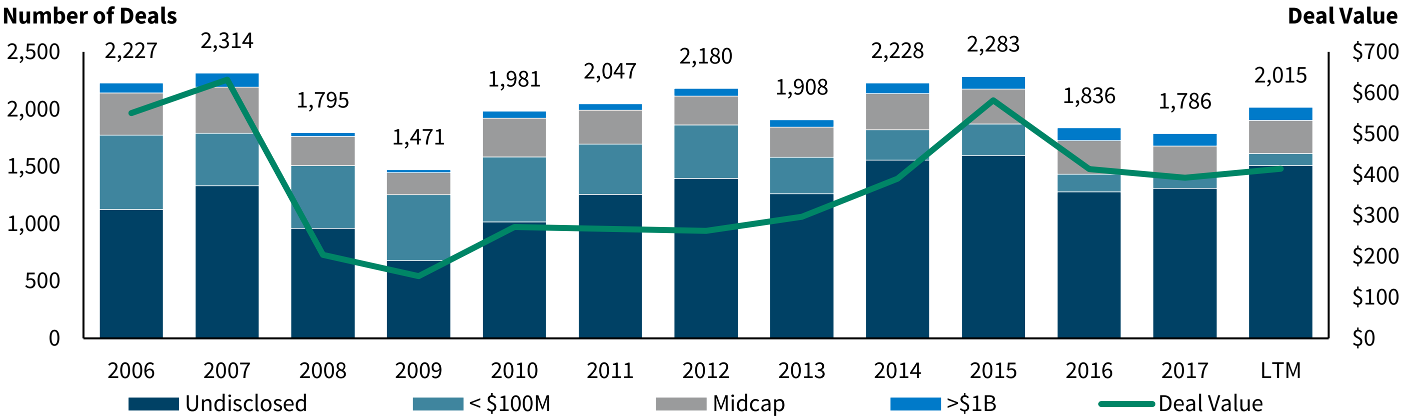


Source: Dealogic

Private Equity and Debt Capital Markets

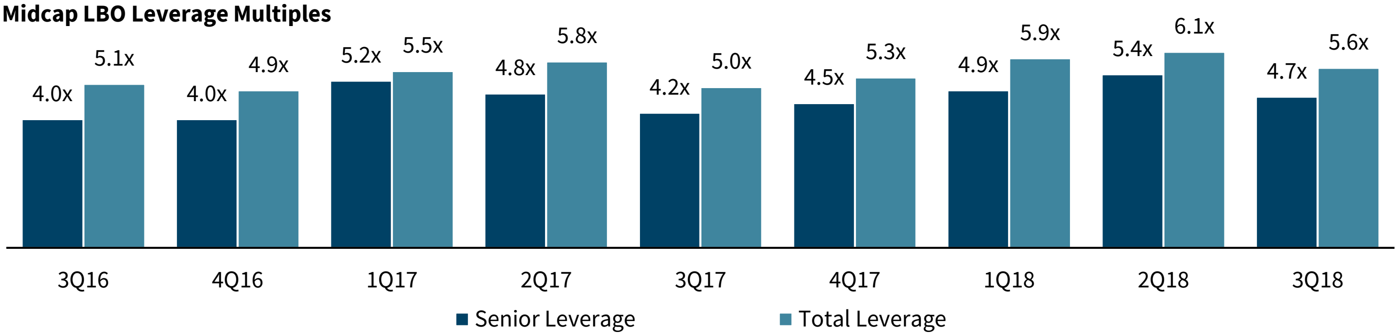
Private equity activity in the United States for the 12 months ending on September 30, 2018, saw increases in both the number of deals and total deal value compared with full year 2017 levels. Total leverage multiples for middle-market LBOs remained healthy, though the average declined from second-quarter levels due to a greater proportion of deals coming from sectors that typically garner lower leverage.

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



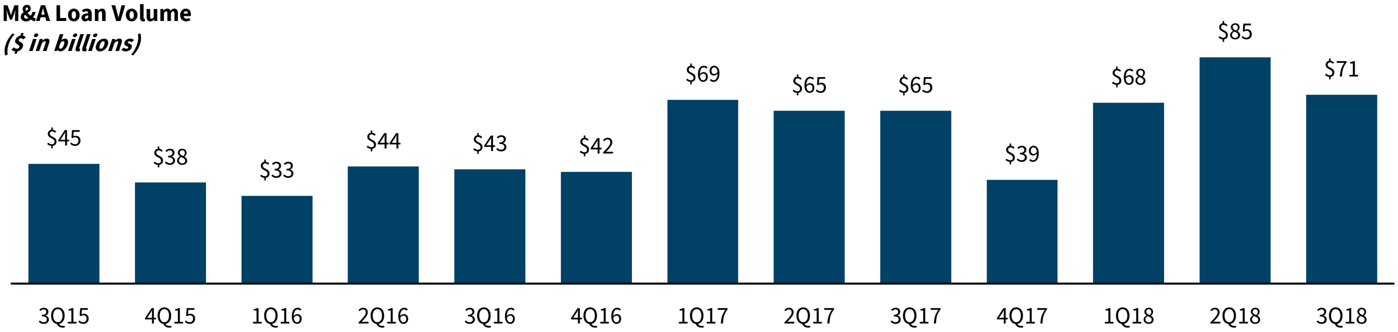
Source: Dealogic

Midcap LBO Leverage Multiples



Source: William Blair Proprietary Midcap LBO Financing Database

M&A Loan Volume
($ in billions)

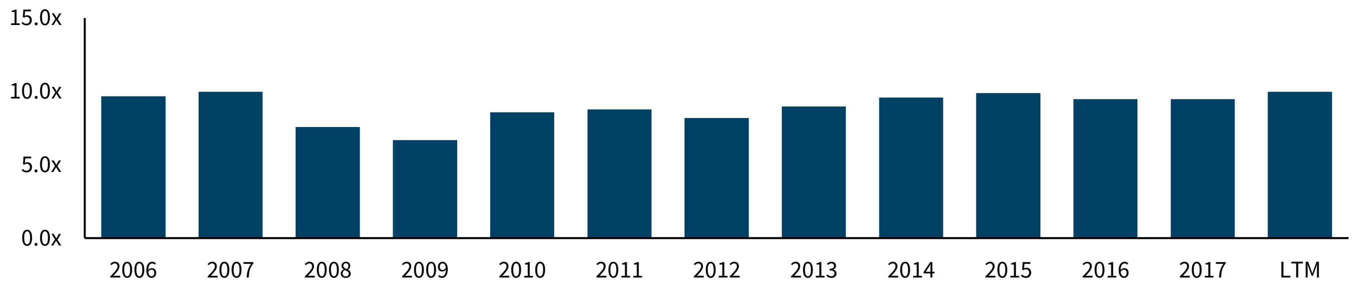


Source: S&P's LCD

M&A Valuations

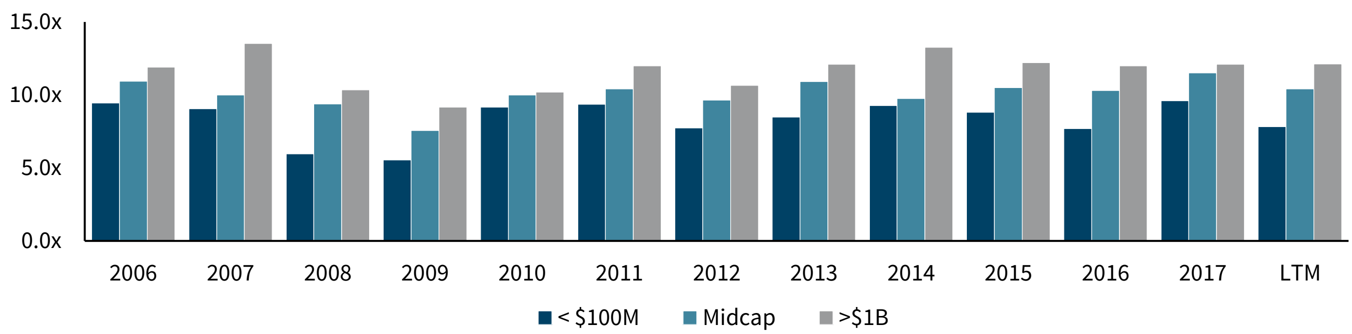
Across all deal sizes globally, median M&A valuations increased to 10.0x for the 12 months ending September 30, 2018, up from 9.5x in 2016 and 2017.

Global – All Deal Sizes
(EV/EBITDA)



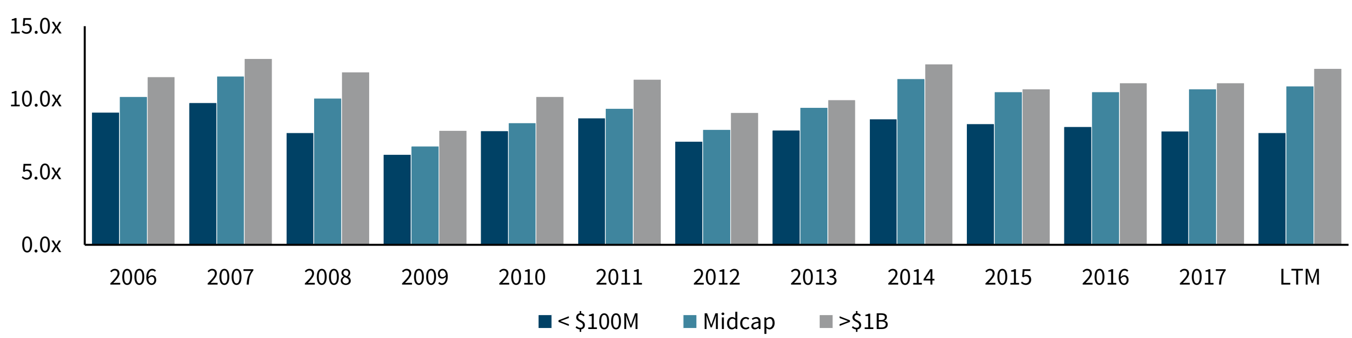
Source: Dealogic

United States – 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:

Not Disclosed symplr has been acquired by Clearlake Capital November 2018	$211,775,606 Edgewater has been acquired by Alithya November 2018	$750,000,000 MatrixCare has been acquired by ResMed November 2018
Not Disclosed Global Orthopaedic Technology has been acquired by Corin October 2018	Not Disclosed REAN Cloud has been acquired by Hitachi Inspire the Next October 2018	€211,200,000 inmac wstore a division of Systemax has been acquired by Bechtle August 2018
$4,930,000,000 Cotiviti Healthcare has been acquired by Verscend August 2018	Not Disclosed Caseking.de has been acquired by Gilde Buy Out Partners August 2018	Not Disclosed EagleView Technologies has received a strategic investment from Clearlake Capital August 2018

With more than 150 senior bankers around the world, William Blair has completed more than 1,175 transactions totaling more than $325 billion in value for our clients*

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* In the past five years as of October 31, 2018

Disclosure

About William Blair Investment Banking

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 2013 to 2017, the team advised on more than $265 billion in completed transaction volume.