

The State
of
The Deal

TRENDS MERGERS+
ACQUISITIONS

2019

Mergers

Acquisitions



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November 11, 2019

CHASE  CENTER



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2019 MID-YEAR TRENDS

- **Strategic M&A and Private Equity**

- Deal Count and Deal Value
- Private Equity + Strategic Buyers
- US vs. Global
- Sector Trends

- **Key Deal Drivers**

- High Valuations and Strategic Mega-Deals
- Private Equity
- Corporate Clarity
- Shareholder Activism
- Representations & Warranties Insurance (“RWI”)

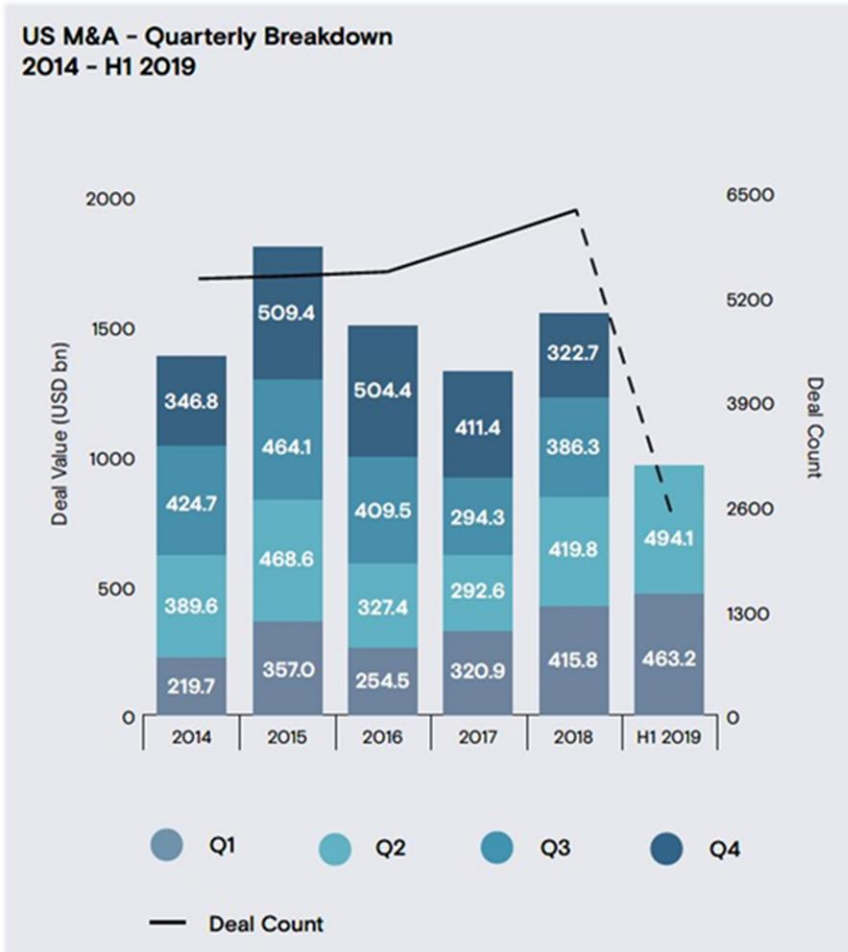
- **Primary Deal Decelerators**

- Regulatory Landscape – CFIUS & FIRREA and Antitrust
- Political Landscape – Trade War and Presidential Election
- Potential M&A Headwinds

- **Forecast**

- “Trump Effect” on M&A?

Strategic M&A and Private Equity



Mergermarket

- **Count:** 2,530 deals → **down 21%** from H1 2018 (3,201)
- **Value:** \$957.3bn → **up 14%** from H1 2018 (\$835.6bn)
- **H1 2019** – second highest-value half-year on record

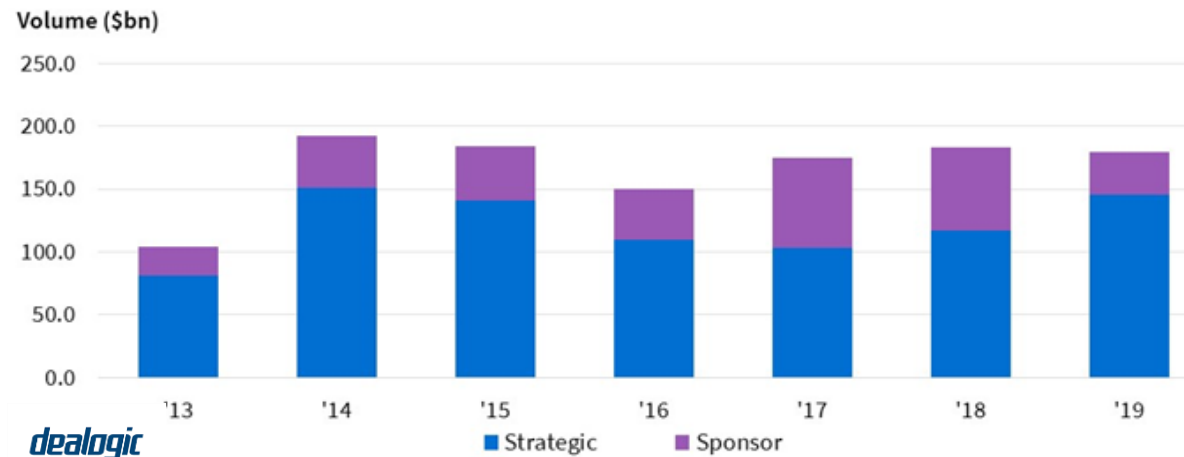


Mergermarket

- **Count:** 634 buyouts → **down 15%** from H1 2018 (747)
- **Value:** \$128.1bn → **up 1.2%** from H1 2018 (\$126.6bn)
- **H1 2019** – third highest-value half-year on record

Private Equity + Strategic Buyers = Big Deals and Mega-Deals*

SPONSOR VS STRATEGIC EXIT VOLUME HALF YEAR



TOP 5 GLOBAL SPONSOR-TO-STRATEGIC-EXIT DEALS – H1 2019

Date	Target	Acquiror	Deal Value (\$bn)
16 Jan 19	First Data Corp (100%)	Fiserv Inc	39,4
14 Jan 19	Ascendas Pte Ltd (100%) Singbridge Pte Ltd	CapitaLand Ltd	8,1
2 May 19	Acelity LP Inc (100%)	3M Co	6,7
24 Jun 19	Altran Technologies SA (100%)	Capgemini SE	5,5
23 Jan 19	Beijing Easyhome Furniture Chain Store Group Co Ltd (100%)	Wuhan Zhongnan Commercial Group Co Ltd	5,3

- First Data Corp – **KKR** exit
- Ascendas Pte Ltd. – **Temasek** exit
- Acelity LP Inc. – **Apax Partners** exit
- Altran Technologies SA – **Apax Partners** exit
- Beijing Easyhome – **Alibaba Group** exit

*Mega-Deals ≥ \$10bn

U.S.



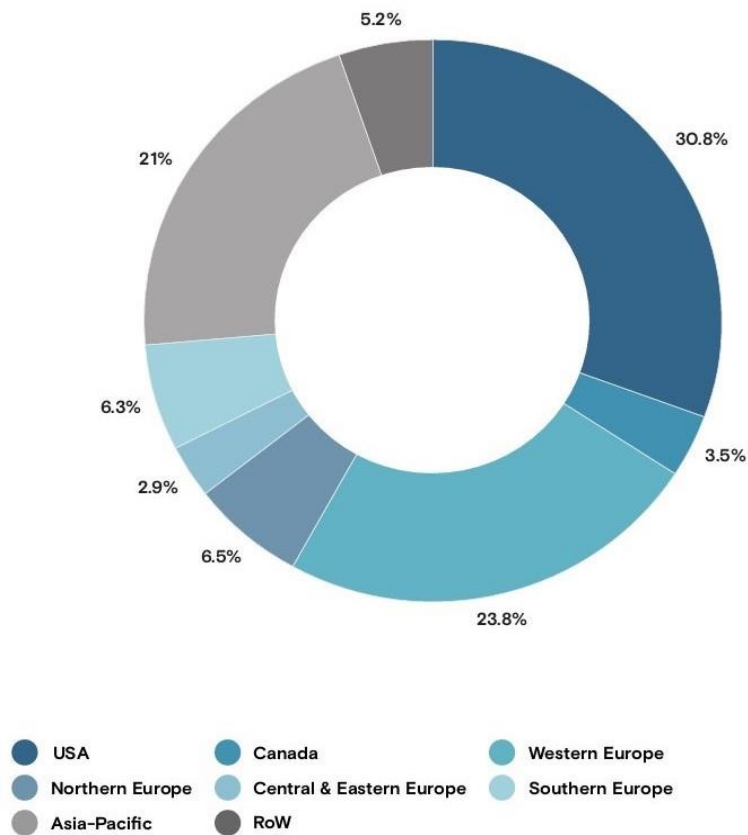
Dominates Global Deal Count and Value



Mergermarket

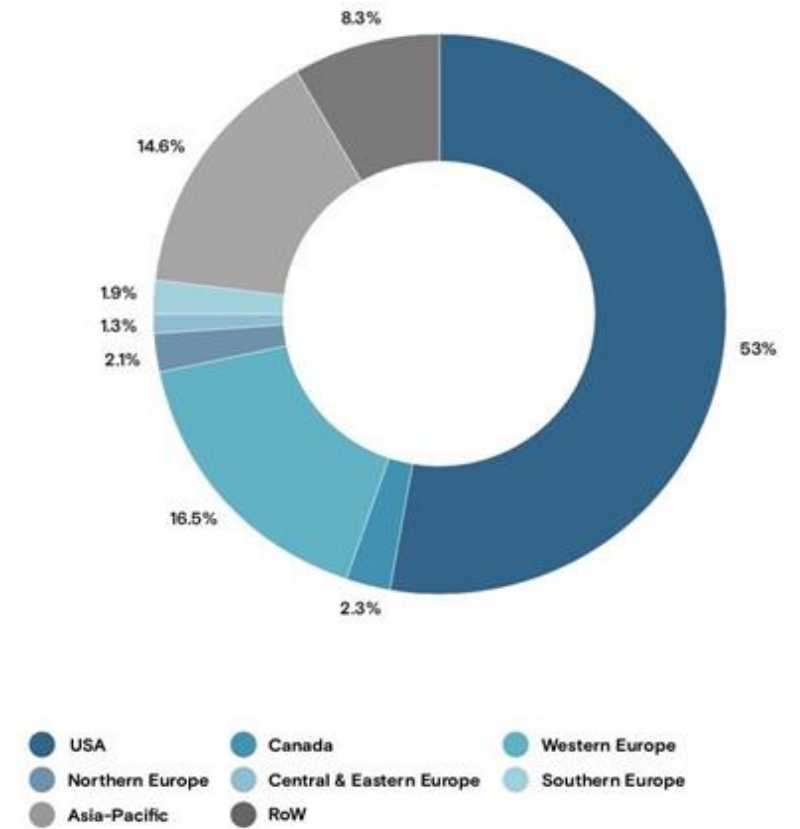
Mix of deals by geographic region Deal Count

Based on announced deals, excluding those that lapsed or were withdrawn. Geographic region is determined with reference to the dominant location of the target.



Mix of deals by geographic region Value

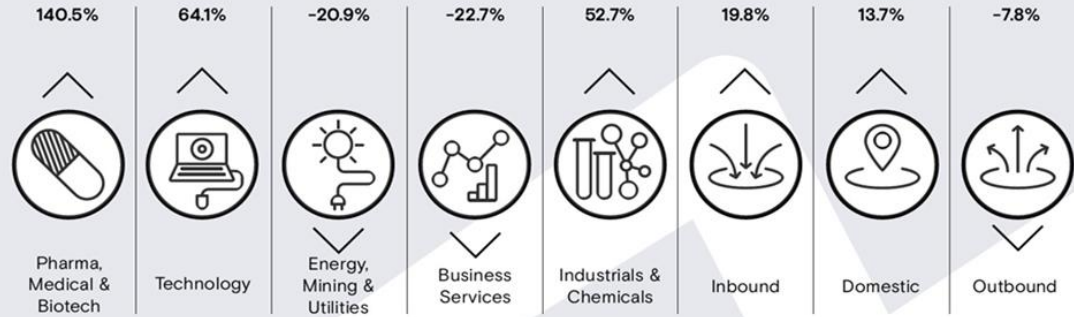
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Sector Trends

1H19 vs 1H18

United States Strategic M&A



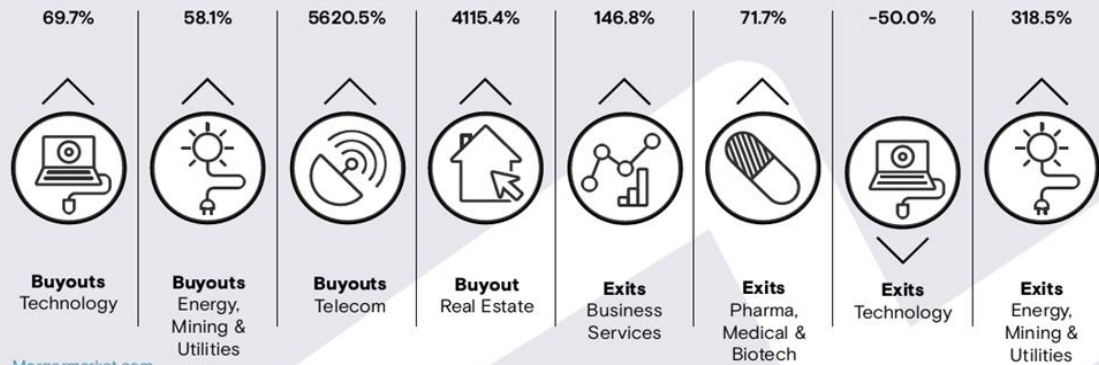
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Select Trends in Strategic M&A

- Perceived advantages of M&A vs. organic growth
- Healthcare and Tech investment continues to increase
 - ✓ \$21.4bn **Danaher Corporation** acquisition of GE Healthcare Life Sciences
 - ✓ \$10.7bn **Broadcom** acquisition of Symantec (enterprise security business)
- Within Healthcare, Pharma & Biotech are most active
 - ✓ \$89.5bn **Bristol-Meyers Squibb** acquisition of Celgene Corporation
 - ✓ \$10.7bn **Pfizer Inc.** acquisition of Array BioPharma Inc.
- Industrials & Chemicals – reached all-time high values
 - ✓ \$63.2bn split of **DowDuPont** into 3 separate companies

1H19 vs 1H18

United States Private Equity M&A



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Select Trends in Private Equity M&A

- Dramatic increase in Telecom acquisitions (where sponsors may have advantage over strategics)
 - ✓ \$14.1bn **EQT Partners** acquisition of Zayo Group (second largest US buyout in history)
- Significant rise in Real Estate acquisitions (following closing of several large investment funds)
 - ✓ \$18.7bn **Blackstone RE Partners IX** acquisition of GLP industrial
- Healthcare and Tech investment continues to increase (with large uptick in sector-focused investment funds)
 - ✓ \$11bn **Hellman & Friedman–Blackstone** buyout of Ultimate Software Group

The background of the slide features a hand-drawn illustration of two stylized figures shaking hands. The figures are drawn with simple outlines and are holding hands in a firm grip. The text "DEAL DRIVERS" is prominently displayed in the center of the image, overlaid on the handshake. The overall style is casual and illustrative, suggesting a theme of business deals or partnerships.

DEAL DRIVERS

HIGH VALUATIONS + MEGA DEALS

Biggest Driver of US M&A Growth – H1 2019

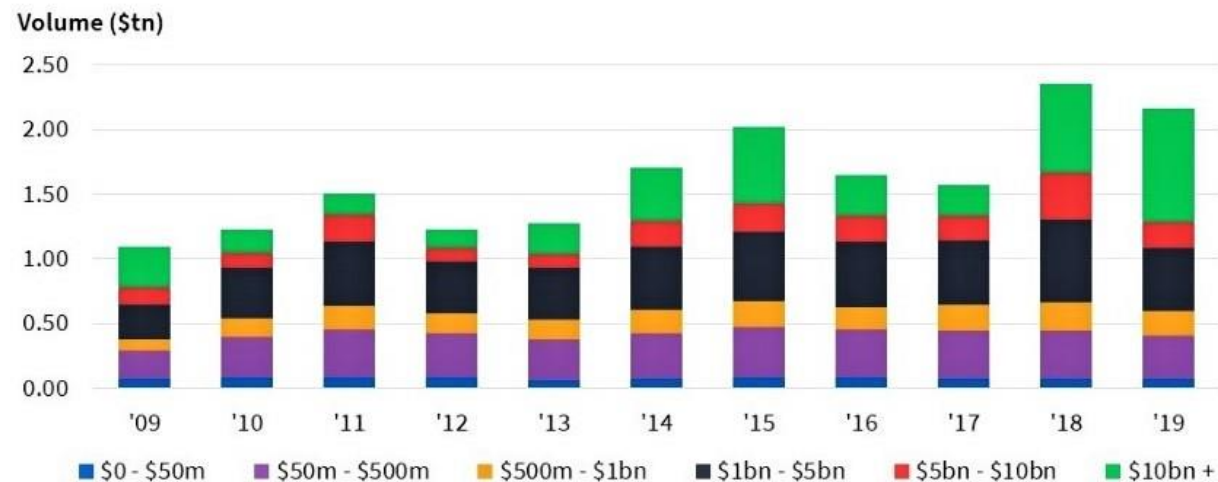
Nineteen (19) transactions totaling **\$569.2bn** including:

- ❑ \$89.5bn **Bristol-Myers Squibb** acquisition of Celgene
- ❑ \$88.9bn **United Technologies** acquisition of Raytheon
- ❑ \$10.7bn **Broadcom** acquisition of Symantec Corporation



40.6% of Global M&A Deal Volume – H1 2019

GLOBAL VOLUME HALF YEAR



dealogic

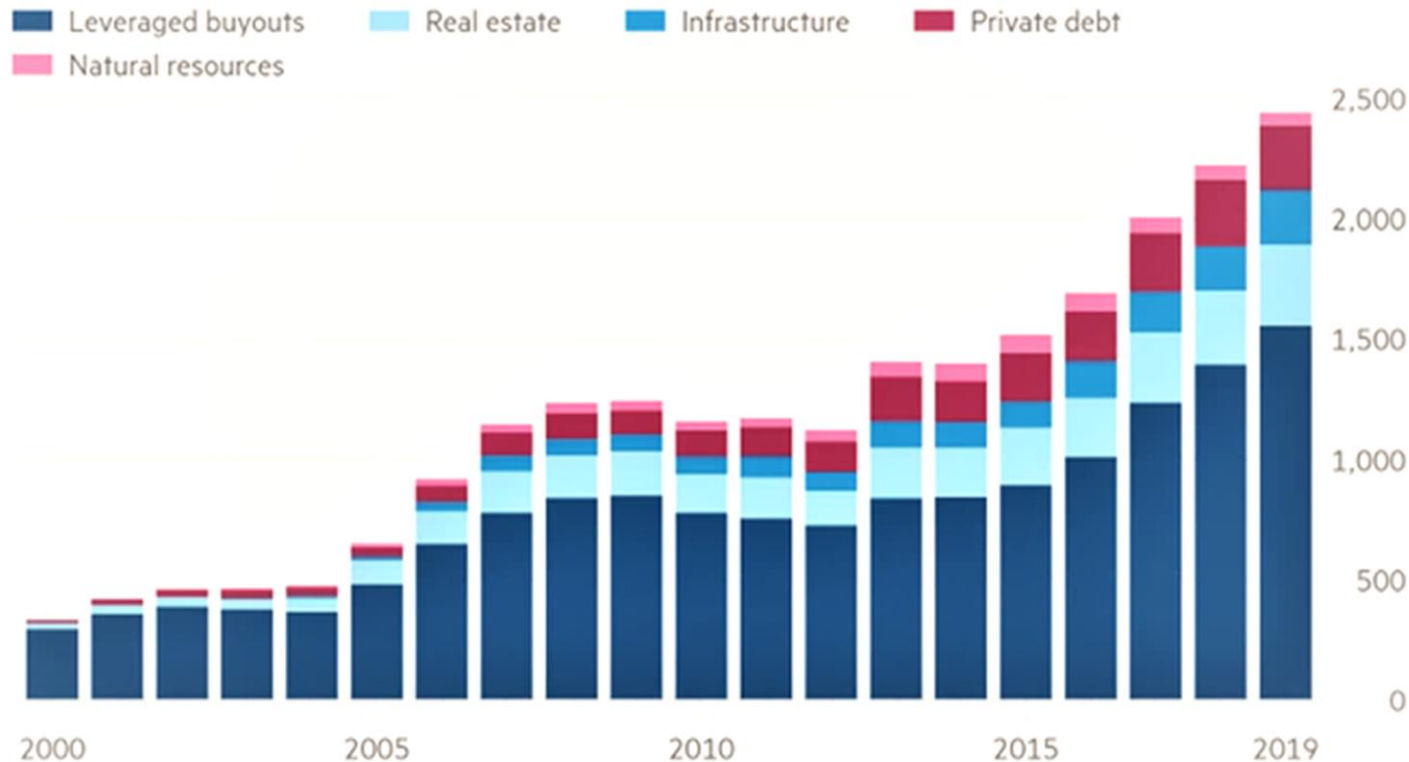


Twenty-eight (28) transactions totaling **\$878.9bn**

PRIVATE EQUITY

Private equity groups have a record level of dry powder

\$bn



Source: Preqin

© FT

- 576 deals valued at \$96 billion in H1 2019
- ↑ 39.3% by deal value compared to H1 2018

- Approximately \$2.5 trillion of available capital in the market today
- Institutional investors are increasing their allocation to private equity
- Continued growth in private credit expands access to debt financing
- Additional products (venture capital, growth capital, sector-focused funds)
- Despite uptick in long-hold funds, most private equity funds still look to maintain investments between 3 to 7 years
- Companies electing to stay private longer

CORPORATE CLARITY

Companies realize benefits of unlocking value and refocusing on core assets

Divestitures

Spin-offs

Split-offs

- Market rewarding spin-offs and split-offs with higher valuations
- Shareholder activist pressure for corporate clarity persists
- Lower corporate tax rate decreasing tax leakage from divestitures
- Higher valuations encouraging companies to monetize assets
- PE buyers willing to consider higher multiples and lower return thresholds

Spin-off value at its highest since H1 2008 with \$152.9bn announced during H1 2019

SPIN-OFF DEALS HALF YEAR



dealogic



Spin-off into three separate companies



Divestiture of enterprise security business to Broadcom

SHAREHOLDER ACTIVISM



Using equity stake in a corporation to achieve certain goals

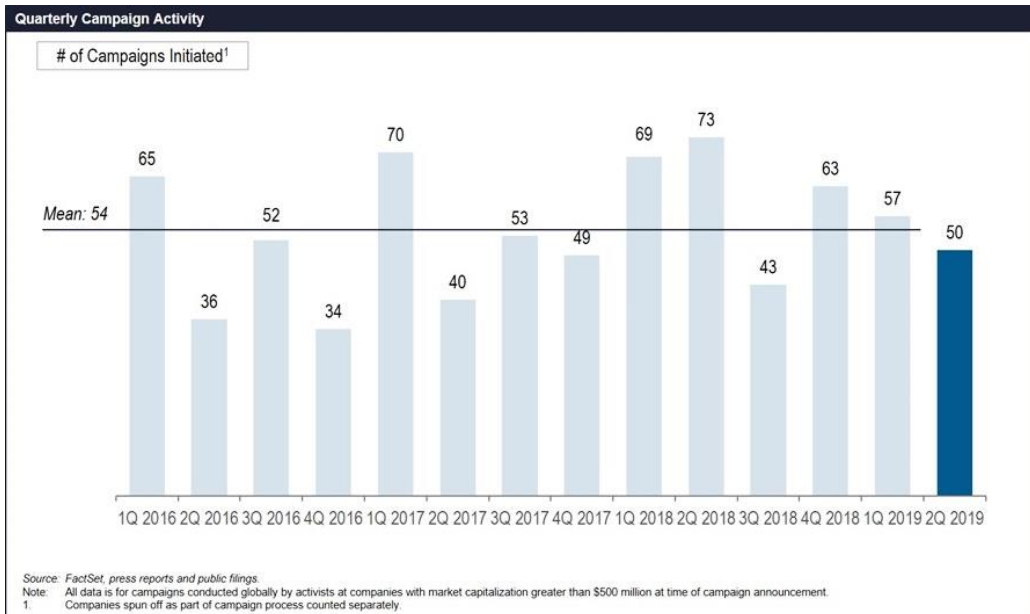
- Pursue attractive risk-reward opportunities
- Focus on catalyzing strategic and operational change

∴ Corporate Clarity

2018 confirmed the pervasiveness of shareholder activism in M&A strategy

- Direct activist AUM stood at \$126.9bn as of Q3 2018
- Institutional investors demonstrated increasing acceptance of activism

H1 2019 keeping pace



Activists driving significant board and management change

- Won 81 Board seats in H1 2019, 91% of which came from settlements
- 19% of CEOs targeted left their role within one year of campaign launch



Case Study: Starboard Value LP and Symantec Corporation

- Starboard Value takes 5.8% stake in Symantec – Q3 2018
- Starboard Value then won 3 Board seats

∴ Symantec divests enterprise security business – H1 2019

Representations and Warranties Insurance

RWI – What is it?

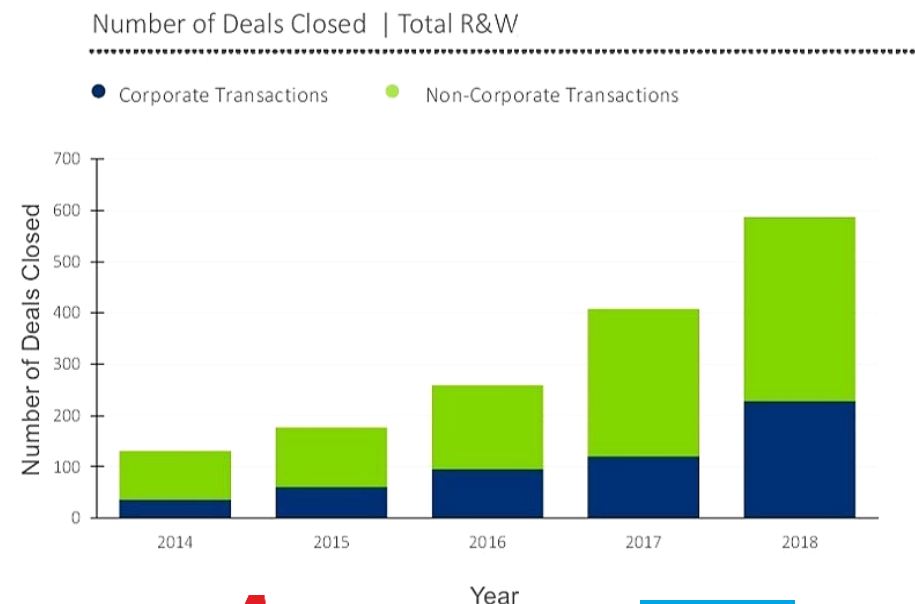
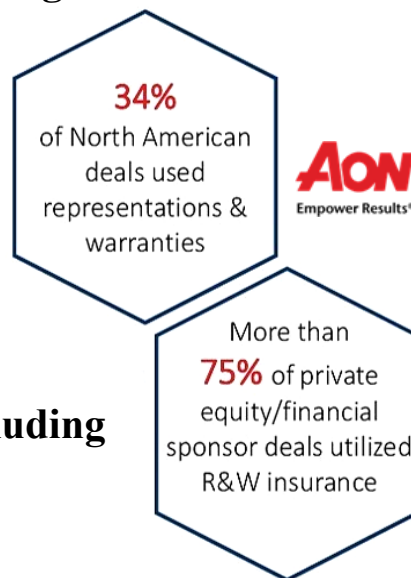
- Insurance for breaches of reps and warranties in purchase agreements
- May supplement or replace seller indemnification
- May be obtained by buyer or seller
- Shifts some risk to insurance carriers for fixed cost

Win-Win for Buyers and Sellers

- Parties willing to negotiate stronger reps and warranties
- Larger caps and longer coverage durations
- “Clean exit” with less tail risk for contracting parties, including management indemnitors

RWI – How has it evolved?

- Sellers may expect RWI as table stakes in competitive auctions
- More brokers and carriers, faster underwriting, stronger basic coverage
- Significant adoption by private equity sponsors following last recession
- Recent acceptance by strategic buyers
- Specialization among carriers around sector or specific liability
- Some increases and standardization in specific policy exclusions



AON

MARSH

LOCKTON

Willis Towers Watson

AIG

EUCLID TRANSACTIONAL

BERKLEY TRANSACTIONAL
a division of Berkley Professional Liability
a W. R. Berkley Company

CHUBB



DEAL DECELERATORS



REGULATORY LANDSCAPE: CFIUS

(Committee on Foreign Investment in the United States)



Inter-agency government committee that reviews national security implications of foreign investments in U.S. companies

- International acquirers of US businesses face increasingly tougher regulatory challenges

Expanded in 2018 by FIRRMA (Foreign Investment Risk Review Modernization Act)

- Requires *mandatory* filings for even non-controlling foreign investments in areas for which filings were *previously voluntary*

CFIUS and FIRRMA heavily focused on deals involving “critical technologies”

- Widely seen as a response to **Chinese investment** in key US sectors – **semiconductors**, telecom, transportation, government services

CASE STUDY: Trump blocks Canyon Bridge Capital’s \$1.3 billion acquisition of Lattice Semiconductor (September 2017)



- First M&A transaction blocked by Trump Administration
- Only second time a President has used his authority to proactively block a transaction at the recommendation of CFIUS
- **Canyon Bridge Capital Partners** – private equity firm owned and controlled by the Chinese government
- **Lattice Semiconductor** – manufactures semiconductors for communications and industrial markets (programmable logic devices for specific applications)
- Proposed mitigation terms to address national security concerns → **rejected amid Trump’s tough rhetoric on protecting US interests**

REGULATORY LANDSCAPE: ANTITRUST

Is the US Antitrust Paradigm Shifting?

- HSR filing required if: *size of transaction* \geq \$90 million + certain thresholds for *size of parties*
- Transactions $>$ \$359.9 million: *reportable regardless of the size of the parties*

FTC and DOJ pursue rigorous enforcement in 2019

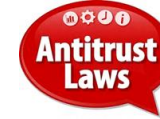
- Undeterred by DOJ's failed attempt to block \$85bn merger of AT&T and Time Warner
- Scrutiny placed on technology industry – some of US largest companies
- FTC may investigate consummated transactions – *to guide future policy*

Current trend focuses on potential for harm to consumers

- Pricing and market power
- Companies leveraging size and influence to manipulate markets in their favor – at expense of consumers and society
- Antitrust should address issues related to income inequality, wage growth and unemployment – *requires legislative change*

Elizabeth Warren takes on Silicon Valley

- Advocates regulatory plan to break up tech giants – Amazon, Google, Apple and Facebook
- Rollback acquisitions including:
 - ❖ Facebook → WhatsApp and Instagram
 - ❖ Amazon → Whole Foods
 - ❖ Google → Waze
- Prohibit platforms like Amazon from offering a marketplace for commerce *and* participating in that marketplace



POLITICAL LANDSCAPE: TRADE WAR



US trade war with China causes uncertainty in M&A market

- Challenge for dealmakers attempting to build medium to long-term business case for transactions
- Elevated risk and anxiety has affected US corporate appetite for overseas acquisitions
- Already having direct impact – most notably, on Chinese investment into the US → **CFIUS**

China counter-punches

- Fired shot across the bow – **quashed Qualcomm's \$44bn bid for NXP Semiconductors** (July 2018)
 - ❑ Qualcomm needed **Chinese antitrust approval** because the country accounted for nearly two-thirds of its revenue

Domestic M&A gets hit hard

- Trump's increasing tariffs on Chinese imports disrupts supply chains
- Economic data indicates **lowest levels of manufacturing activity** since great recession



POLITICAL LANDSCAPE: 2020 ELECTION

Presidential Election Year – M&A Cool Down

- During presidential election years, M&A activity typically decreases around Q2 of the election year
- Buyers wait and observe how the president-elect may affect markets before considering an acquisition
- Current political divide may cause more pronounced deal deceleration in 2020 election year

Trend for Q4 2019 and H1 2020

- Cautious executives anticipate governmental policies that will curtail growth and increase costs for M&A
- Companies spend less cash when policy uncertainty is high
- American CEOs are worried – spending slumping at fastest rate in a decade (*Goldman Sachs, October 2019*)

Combination of ongoing trade conflict and 2020 Presidential Election

- **Lingering uncertainty**



POTENTIAL M&A HEADWINDS



Deal Valuations

- Expansion of trading multiples
- Public vs. private company trading comps
- Renewed focus on growth/profitability
- Longer hold times for private equity

Shareholder Activism

- Shareholder Primacy vs. All Stakeholders
- Pressure to distribute balance sheet cash
- Renewed focus on growth/profitability
- Focus on scaling core business

Note on Brexit

- Lack of clarity on where the Brexit process goes next – deadline extended by three months to January 31, 2020
- M&A valuations may be impacted
- Overseas companies seeking European presence may consider other jurisdictions



FORECAST



Update: Q3 2019 M&A volume and value edges up *(PwC, October 2019)*

- US deal count increased by 4% in both strategic and private equity transactions
- Fewer mega-deals, but Q3 deal value was up 8% from Q2

however ... what will be the effect of



Impeachment is Political Theater – will have NO EFFECT

- May or may not happen
- Infinitesimal chance of Trump's removal, because impeachment will die in the Senate
- Impeachment proceedings could backfire – strengthen and energize Trump's base, leading to re-election

Policy impacts down the road – will have SIGNIFICANT EFFECT

- Policy and politics present a challenging context for M&A
- Trump administration's ongoing disputes with China – as well as questions on trade with Mexico and Europe – cast a shadow
- Warren's promises to break up tech titans would tank stock markets – and she's no friend of free trade – little chance for China deal

MAGA = Make America Great Again

or



MAGA = M&A Go Away?

Thank You



Go Warriors!