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European M&A Outlook

A Study of European M&A Activity

In cooperation with:

MERGERMARKET

September 2014

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Foreword

Thomas Meyding, Head of CMS Corporate Group

CMS, in conjunction with Mergermarket, is pleased to present the second edition of the European M&A Outlook.

The publication is based on forward-looking research on the prospects for M&A across Europe over the next 12 months.

With the help of Mergermarket, we have engaged with M&A stakeholders across Europe to gather their views on the likely activity levels, hot sectors and key drivers for M&A over the next 12 months. The research extends across all European geographies and a number of important market segments and takes into account the view of CEOs, finance directors, bankers, M&A heads, private equity players and sector specialists.

The publication also compares the current sentiment for M&A across Europe with the results of this research, and the sentiment, from 2013.

As forecast by the majority of participants in the research last year, we have seen a significant increase in the level of M&A activity across Europe since summer 2013. Certain sectors, such as TMT and energy, have dominated high-end European M&A transactions.

As is evident from our section 'Looking back at 2014', global confidence in Europe's recovery is undeniably growing, with deal values in the first half of 2014 increasing by 34% compared to the same period last year. A significant proportion of this increase can be attributed to the TMT sector, where transformative acquisitions and sustained activity contributed over €40bn to total deal values in Europe in this period. However, dealmakers should be cautious with their expectations for European M&A over the coming months. Stagnant growth in certain pockets of Europe, along with the impact of political tension between Russia and Ukraine and sanctions against Russia, will no doubt have an effect on dealmakers' plans.

As always, the Outlook makes interesting reading and this year you will find:

- Attitudes about Europe's economic recovery have improved significantly and the majority believe that the worst is behind us;
- Views are very divided as to whether the political situation in Russia and Ukraine will impact European M&A and political uncertainty is still seen as the greatest threat to European businesses;
- Businesses are bullish about the level of M&A over the next 12 months with 67% of respondents considering either acquisitions or divestments or both. This planned activity is driven mainly by a growth strategy or a strategy to focus on the highest growth geographies in the current business; and
- Germany is tipped to be the most active M&A market and TMT the hottest sector over the next 12 months.

The research also confirms that there continues to be some disconnect between price expectations and risk appetite between sellers and buyers. Aaron Fairhurst, a partner at CMS, explains how warranty and indemnity insurance is being increasingly used in European M&A transactions to bridge this gap between sellers and buyers.

We look forward to your feedback on the Outlook and to reporting to you on recent trends affecting M&A deal terms in our CMS European M&A Study 2015 to be released early next year.

Looking Back at 2014

European M&A had an outstanding first half of 2014. In comparison to the first half of 2013, deal values in H1 2014 rose 34% to €340.8bn, while the volume of deals rose by 4% year-on-year (YoY) to 2,860.

Macroeconomic pieces have fallen into place, encouraging European M&A. Anticipation of strong domestic demand and export growth will likely anchor recovery in key economies such as Germany and the UK and, at a slower rate, Spain, Italy and France. For 2014, the European Central Bank has issued a 1.6% gross domestic product (GDP) growth forecast for the EU. At the same time, financing conditions have improved markedly in some European countries, thanks to looser credit conditions and improved access to long-term European Central Bank structural funds.

As some European economies gradually return to growth, foreign acquirers are increasingly interested in European assets, reflecting global confidence in Europe's recovery. The number of inbound deals into Europe reached 501 in the first half of the year, up 20% YoY, and increased in value by 82% to €111.8bn. Big-ticket pharmaceuticals deals dominated headlines, as North American buyers sought to re-domicile in select European countries in order to benefit from their hospitable tax arrangements. The most notable example of this was US-based medical devices company Medtronic announcing plans to acquire Ireland's Covidien for €33.9bn. Politicians and the public have reacted negatively to the news, as Medtronic has been vocal about moving to Ireland in order to reduce its tax bill.

Private equity activity was a mixed bag in H1 2014. Buyout levels have been relatively flat over the past few years. However, in H1 2014, the volume of buyouts spiked 17% YoY to 493 deals, with an increase in value of 2% to €43.9bn. Exits also tell a resoundingly positive story. An increasing number of trade buyers were willing to pay premiums and invest capital to enhance their European market presence. Exits to strategic buyers

Top deals, H1 2014

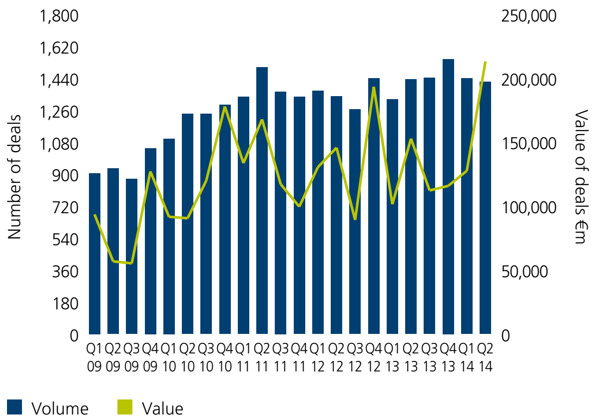
Date announced	Target company	Target sector	Target country	Bidder company	Bidder country	Seller company	Deal value (€m)
15-Jun-14	Covidien Plc	Pharma, medical and biotech	Ireland (Republic)	Medtronic, Inc.	USA		33,916
07-Apr-14	Lafarge S.A.	Construction	France	Holcim Ltd	Switzerland		28,806
05-Apr-14	SFR SA	TMT	France	Altice S.A.	Luxembourg	Vivendi SA	17,000
22-Apr-14	GlaxoSmithKline Plc (Oncology division)	Pharma, medical and biotech	United Kingdom	Novartis AG	Switzerland	GlaxoSmithKline Plc	10,506
20-Feb-14	Portugal Telecom SGPS, S.A.	TMT	Portugal	Oi S.A.	Brazil		8,663
27-Jan-14	Ziggo B.V. (71.5% Stake)	TMT	Netherlands	Liberty Global Plc	United Kingdom		8,043
17-Mar-14	Grupo Corporativo ONO, S.A.	TMT	Spain	Vodafone Group Plc	United Kingdom	Providence Equity Partners LLC; CCMP Capital Advisors, LLC; Quadrangle Group LLC; Thomas H. Lee Partners, L.P.; Caisse de Depot et Placement du Quebec	7,200
21-Feb-14	Scania AB (37.4% Stake)	Industrials and Chemicals	Sweden	Volkswagen AG	Germany		6,660
11-Feb-14	L'Oréal SA (8% Stake)	Consumer	France	L'Oréal SA	France	Nestlé SA	6,000
16-Mar-14	RWE Dea AG	Energy, mining, utilities	Germany	LetterOne Group	Luxembourg	RWE AG	5,100

Source: Mergermarket

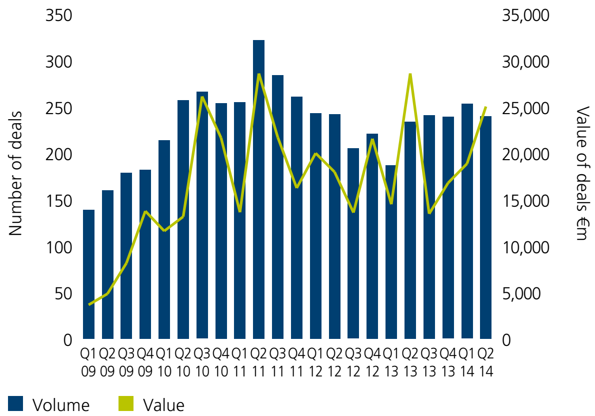
amounted to €54.2bn, a 76% increase from H1 2013, although volume remained flat at 328 deals.

Taking a closer look, the TMT sector has attracted a huge amount of interest in recent months, contributing 15% of M&A activity by volume in H1 2014. Four out of the top 10 deals also took place in the sector. Telecommunications continues to undergo strong consolidation, with cross-border acquisitions gathering momentum as the European Commission presses for the creation of a single market. Telecommunications companies are also buying up technology and media assets, with the aim of offering customers a more well-rounded service. Accordingly, we saw several serial acquirers making a number of transformative purchases in H1 2014. For instance, UK-based Liberty Global, on the back of its €18.5bn purchase of Virgin Media in late 2013, announced plans to acquire Netherlands-based media company Ziggo for €8bn and UK-based ALL3MEDIA for €672m. Through these deals, Liberty Global is looking to extend its geographical foothold across Western Europe, to achieve economies of scale and increase revenue.

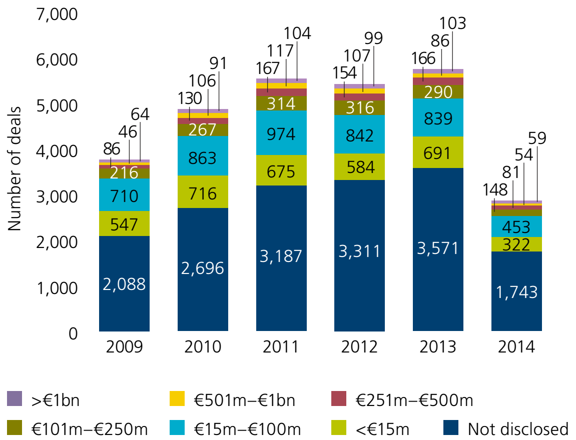
M&A trends



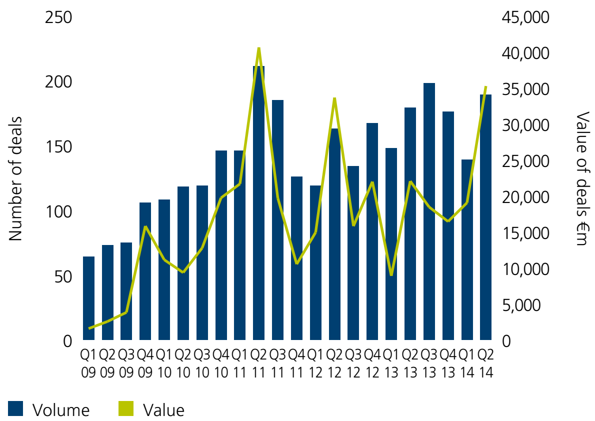
Buyout trends



Deal size splits



Exit trends



Source: Mergermarket

Although M&A recovery has not been even across Europe, the general attitude toward dealmaking looks to be improving. The first half of 2014 has likely bolstered investor confidence and risk appetites. M&A is back on many corporate agendas as companies look to grow their market shares and gain competitive advantages. We expect to see these stronger M&A figures sustained throughout 2014.

European Breakdown

Benelux

In the Benelux countries, M&A figures remained sluggish. With 222 deals in H1 2014 compared to 219 in the first half of 2013, the volume of deals remained flat. Meanwhile, deal values decreased YoY by 9% to €18.4bn. Key sectors were affected by poor market sentiment. For instance, the industrials and chemicals and consumer sectors saw deal volumes decline by 19% and 10%, respectively.

Despite a 10% volume decrease YoY to 36 deals, and a 49% drop in value to €4bn, the consumer sector was the second strongest by value in H1 2014 and may be set for an increase in activity. Consumer spending, particularly in the Netherlands, has seen steady increases this summer. In the second biggest deal by value in the Benelux countries, US-based consumer goods conglomerate Mondelez International took over the Netherlands' D.E. Master Blenders for €3.6bn. Through this deal, Mondelez has created one of the world's largest coffee companies.

TMT dealmaking proved to be a bright spot for Benelux M&A in H1 2014 surging 34% YoY to 43 deals and more than sevenfold in terms of value to €9.1bn. The biggest deal of 2014 so far was UK-based Liberty Global's announced acquisition of Dutch cable company Ziggo. However, 47% of the total sector volume (or 20 deals) were computer software-related acquisitions, including four private equity exits and four buyouts, indicating strong valuations for IT companies. The largest deal in this category was the purchase of Netherlands-incorporated Changepoint by US-based Marlin Equity Partners for €118m.

Central and Eastern Europe (including Russia and Ukraine)

In CEE, the volume of deals increased 9% YoY to 312, while value dropped by 44% YoY to €24.1bn.

The volume of deals in Russia increased by 41% YoY to 110, making up 35% of deal volume in CEE, an eight percentage point increase from the previous year. But in terms of deal value, Russia's overall share in CEE declined markedly, from 65% in H1 2013 to 50% in H1 2014.

The Russian economy is heavily focused on energy, with a large share of M&A taking place in the sector. In H1 2014, the top energy deals were mostly of a domestic nature, with Rosneft concluding three deals for more than €600m in an attempt to gain market share. This occurred amid expectations that Gazprom might relax its tight monopoly on some areas of the energy sector.

Deal volumes in the Baltic countries also increased by 89% YoY, thanks to sizeable increases in activity in Lithuania and Estonia, which are in the process of liberalising their energy markets. The biggest of these deals was Finnish utility Fortum's Russian subsidiary increasing its share in Estonian natural gas distributor Eesti Gaas, as the seller, German producer E.ON Ruhrgas, is shifting its focus away from European markets. Fortum has, however, stated that it considers the acquisition to be an interim deal, in line with continued unbundling in the Baltic country's energy sector.

France

In France, M&A deal values increased more than fivefold YoY to €84.4bn, although volume remained flat at 360 deals. High-value deals reflected the French government's increasing willingness to let foreign investors buy stakes in highly prized national assets in need of cash injections. This was best exemplified in the €1.2bn acquisition of French engineering company Alstom by US-based General Electric after the French government took a majority share. Alstom had previously sold its auxiliary component business to UK-based private equity firm Triton Partners for €730m. Earlier in 2014, car manufacturer Peugeot-Citroen sold

14% stakes to both Chinese company Dongfeng and the French government for a total of €1.6bn with the aim of improving its balance sheet and enhancing its presence in the Asian market.

Industrials and chemicals value also increased by 117% to €5bn, displaying the fact that most European regions have experienced M&A growth in this sector. In France, a firmer Purchasing Managers Index (PMI) in H1 2014 compared to the same period in 2013 also indicated a positive outlook for the manufacturing sector.

A high-profile deal in the construction sector was Switzerland-based Holcim's bid to merge with French construction and cement company Lafarge for €28.8bn, placing this sector at the top in terms of French M&A values. This deal will see the world's two largest cement producers merge with the aim of streamlining energy costs and balancing oversupply in the European market.

M&A in the French consumer sector also experienced an uplift with volume rising 6% to 68 deals. Deal values in this sector spiked more than sevenfold, to €9bn, driven by large deals such as cosmetics manufacturer L'Oréal buying back an 8% share from Switzerland-based consumer goods group Nestlé for €6bn.

German-speaking countries

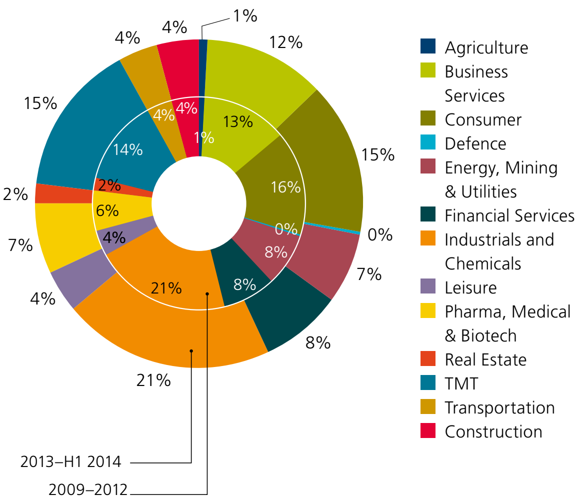
In German-speaking countries, M&A figures for H1 2014 were mixed. Although deal volumes declined by 7% to 461 in H1 2014, values rose 13% YoY to €43.2bn. The increase in values was underpinned by ninefold and threefold increases in the business services and energy, mining and utilities sectors, respectively.

The energy, mining and utilities sector was buoyed by regional utilities restructuring and stabilising their balance sheets in the wake of falling commodity prices. These companies have focused largely on divesting nonstrategic assets to stem their losses. Meanwhile, there was continued interest from private equity in acquiring and buying into renewable energy assets, which have also suffered from low returns on investment.

In the biggest deal the region saw in H1 2014, power producer RWE, one of Germany's largest utility companies, sold its exploration and production unit RWE Dea to the LetterOne Group for €5.1bn.

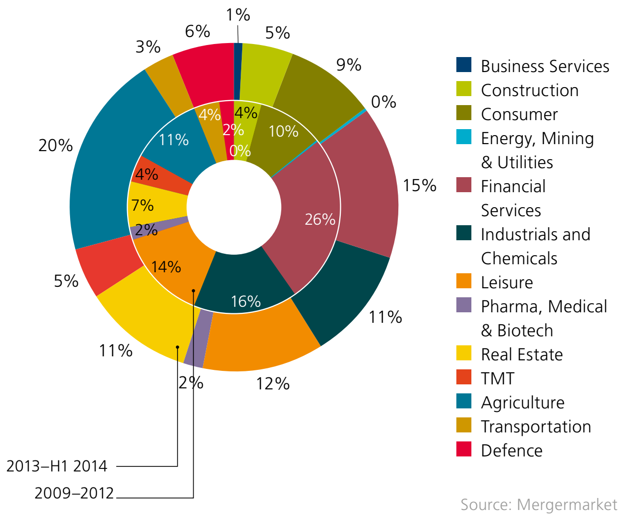
In German-speaking countries, the volume of deals in the pharmaceutical, medical and biotech sector increased by 55% to 45 deals, while values increased almost fivefold to €5.6bn. This increase was driven by

M&A volume split by target sector



Source: Mergermarket

M&A value split by target sector



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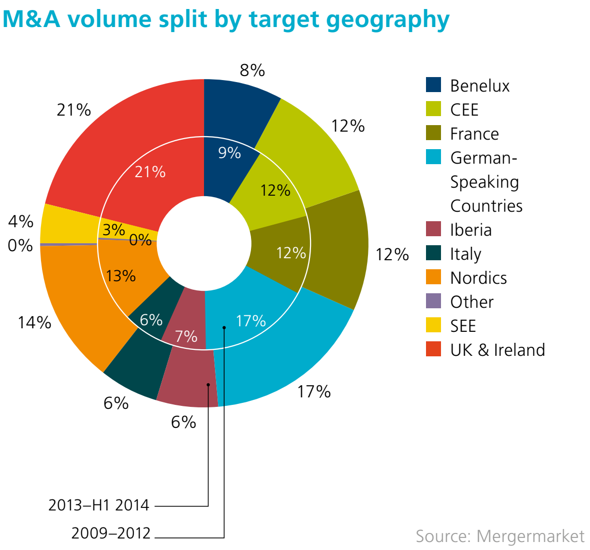
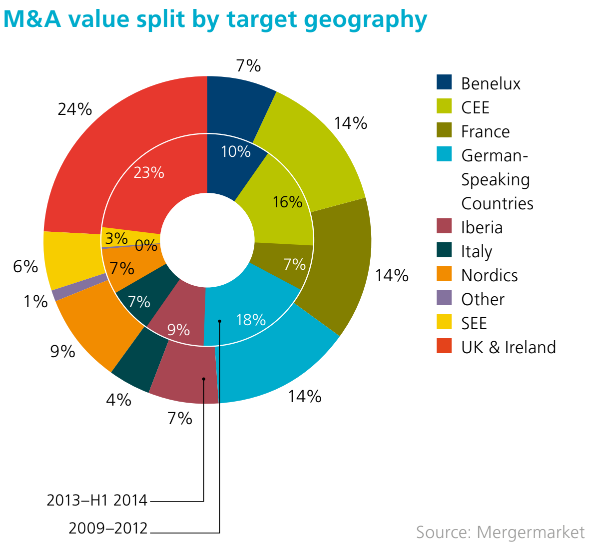




several top acquisitions by US-based companies, such as the purchase of Swiss company Novartis' animal health business by drug developer Eli Lilly for €3.9bn. This transaction came as part of an asset swap: as Eli Lilly looks to become a leader in the animal health sector, Novartis is concentrating on enhancing its portfolio of cancer-fighting drugs.

Iberia

Iberia saw deal volume increase by 6% YoY to 177 deals, while deal value shot up 106% to €2.8bn over the same period. This positive growth was largely driven by activity in the TMT, real estate and financial services sectors.

In H1 2014, foreign buyers were especially interested in Spain's financial services assets. In H1 2014, Banco Santander made sales to US private equity firms. In one example, the banking giant sold an 85% stake in real estate firm Altamira Asset Management, Apollo Global Management and the Canada Pension Plan Investment Board for €664m. The sale of Altamira was one of eight deals in H1 2014 that contributed to the resurgence in Spanish real estate deals.

Portugal and Spain also saw significant activity in the TMT space. Throughout Europe and the US, TMT companies have turned to M&A in order to increase their market shares. Accordingly, M&A in the sector jumped by 69% in volume YoY to 22 deals and increased in value many times over to €17.4bn.

Italy

In H1 2014, M&A volume in Italy increased by 19% YoY to 183 deals, while values declined by 15% to €10.1bn.

The European Central Bank has kept a watchful eye on Italian banks' 'spring cleaning', as they ease funding for long-term structural loans. Many of these banks are in the process of writing down assets, in order to recapitalise. In this climate, a domestic real estate transaction constituted the biggest Italian deal of 2014, in which several banks, including Intesa Sanpaolo, Unicredit Group and Banco Popolare, announced plans to purchase a 55% stake in property developer Risanamento for €2.1bn in a debt to equity conversion. The Italian developer had amassed a significant amount of debt to the lenders when property prices crashed in 2009.

Meanwhile, activity in other sectors was spurred by corporates on the lookout for growth opportunities. In the transportation sector, deal volume increased by 20% when key Italian airports changed hands in cross-border deals, amid continued consolidation in the aviation industry. Argentinian holding company Corporacion

America, the world's largest airport operator, concluded two deals worth €187m for the takeover of the Aeroporto di Firenze operator and Societa Aeroporto Toscano's airport authority. Corporacion America has indicated a strong interest in expanding its Mediterranean portfolio and is also considering bids for airport management in Greece, where the government is continuing to privatise transportation assets in the aftermath of the economic crisis.

Nordics

The volume of Nordic-based deals increased 4% YoY to 405 in H1 2014, as deal values surged 147% to €33.7bn over the same period. Once again, Sweden was the most popular M&A target country in terms of both volume and value.

Given the cyclical nature of industrials and chemicals, and the export focus of Nordic economies, the recent economic upturn has greatly helped M&A activity in the sector. This was helped by regional neighbours, especially the Baltics, which are net importers of industrial materials. The industrial and chemicals sector in particular continued to dominate, seeing the biggest YoY value increase, from €2.8bn to €11.1bn. The largest deal was concluded in Sweden, with Volkswagen taking over Swedish manufacturer Scania for €6.7bn, in order to consolidate its trucking division and gain European market share.

Values in the energy sector doubled YoY, particularly driven by Norway, where deal value increased from €280m to €2.1bn. Norwegian companies are looking to expand their portfolios to support exploration and production activity in the North Sea. PE house Hitec Vision bought out Vryhof Anchors in Q4 2013, allowing it to tap into Dutch expertise for offshore marine equipment, as ever more sophisticated technology is required to exploit North Sea resources.

South Eastern Europe (SEE)

In the SEE, M&A volume increased 8% to 110 deals, while value plummeted 80% YoY to €7.5bn.

In Turkey, the largest economy in the region, deal values dropped 33% YoY to €5.6bn, although volume increased by 18% to 92 deals. A major driver of deal activity was the Turkish government's sale of energy and transportation assets, the most significant of these being the tender for the Yenikoy and Kemerkoy coal-fired power plants, for which Turkish producer IC Ictas Enerji has offered €1.9bn.

But activity struggled in the SEE's more beleaguered economies. In Greece, transactions almost halved YoY from 15 to 8 deals, and value dropped by 97% to €750m. In 2013, M&A activity was supported by government involvement, but this has largely slowed. The uncertainty surrounding Greece's growth prospects seems to have stymied investor interest in H1 2014.

UK & Ireland

The UK & Ireland continued to lead European M&A activity in the first half of 2014. With Ireland on the path to economic recovery and the UK registering a six-year high in GDP growth, the climate was ripe for increased M&A activity. In H1 2014, deal volumes increased by 7% YoY to 619 deals, and values amounted to €87bn, up 41% from the previous year.

This increase in deal value was largely driven by big-ticket deals in the pharmaceutical, medical and biotech sector. Preceding the Covidien-Medtronic mega-deal, Swiss pharmaceutical company Novartis announced plans to acquire the healthcare, vaccines and oncology drug developing division of UK-based GlaxoSmithKline for €10.5bn, in an asset swap that sees the two pharmaceutical giants narrowing the focus of their businesses.

The consumer sector registered a 7% increase to 79 deals, and a value increase of 103% to €5.4bn. Notably, PE exits to corporates increased, showing an enhanced interest by strategic buyers as domestic consumer spending is set to increase with economic recovery.

The energy sector also saw several transformative deals in H1 2014. In particular, the renewables space saw a handful of deals. Danish energy incumbent Dong Energy sold stakes in two large UK-based offshore wind farms, the 630MW London Array 1 and the 210MW Westernmost Rough, for a total of €1.1bn.

W&I Not?
The Emergence of Warranty and Indemnity Insurance in European M&A Transactions

Aaron Fairhurst, Partner

Sellers of businesses in a competitive process would be imprudent not to consider exploiting the benefits that warranty and indemnity (W&I) insurance has to offer in the current market.

The use of W&I insurance in M&A transactions has increased dramatically in recent years and, as its familiarity grows, many purchasers are now getting comfortable with the fact that they can rely on the cover offered by insurance, as opposed to direct contractual recourse with the seller. Of particular interest is the relatively recent development whereby insurers give significant protection to a purchaser in respect of the warranties under which the seller's liability is capped at a nominal amount (usually around £1).

While buy-side interest in W&I insurance is increasingly strong, sellers are comparatively hesitant to take advantage of both this product and any competitive tension of the sale process. A seller should consider insisting that the buyer takes out such a policy, thereby allowing the seller to achieve the ultimate goal of a no-recourse sale.

What is W&I insurance?

W&I insurance, or as it is sometimes known, transactional risk insurance, fundamentally bridges the gap between the contractual protection that a seller is willing to give, and the protection that a buyer requires, in respect of a transaction. W&I insurance is therefore an irreplaceable tool used to assist parties in reaching a position they are both happy with, a position that would not otherwise be attainable through a more traditional negotiation process.

In its basic form, W&I insurance provides cover for unexpected and unknown issues arising in connection with a corporate transaction, which would otherwise give rise to a claim under the standard W&Is contained in the share purchase agreement (SPA).

The policy can enhance the protection on offer under an SPA, which is particularly useful when a seller is unwilling or unable to offer the protection sought by a buyer. This can be in terms of the scope of the W&Is on offer, or in terms of quantum or time where the insurance "tops up" the financial cap or longstop date offered by the seller. Provided the insurer is comfortable with the manner in which due diligence and disclosure processes during the transaction have been carried out, the product has developed sufficiently to allow the seller to effectively not give any warranties, by capping their liability, save in the case of fraud, under the sale documents at £1.

A policy can be purchased by either a seller or buyer in a transaction. A sell-side policy allows the seller to claim from the insurer to cover a liability it has to the buyer. By contrast, a buy-side policy, which is more common, allows the buyer to claim from the insurer in respect of its losses without recourse to the seller. The rationale for taking out a policy will vary depending on whether it is driven by sell-side or buy-side motivations.

Basic W&I policies usually exclude any liability arising from "known risks" – in other words, those identified as part of the due diligence process or disclosure exercise. It is possible to gain cover for such identified risks, although, unsurprisingly, this will usually be more expensive and time-consuming than the basic cover. Such risks tend to be in areas of high exposure but low risk, where insurance provides an alternative to the unattractive position of having funds tied up in an escrow account for a potentially long period. Tax risks are frequently covered in this way, where the buyer is unwilling to take a view on issues identified in tax due diligence and the seller sees the risk as simply over-enthusiastic due diligence and over-cautious advice.

The price of a W&I policy will depend on the nature of the transaction being insured. Insurers will consider factors such as the policy limit relative to the deal size and attachment point sought (similar to the excess on a car insurance policy), the nature of the target business (including the jurisdictions it operates in), and the breadth of the warranties before setting a premium. The premium for unknown risks will typically be from one to two percent of the policy limit.

When can W&I be used?
W&I insurance can be used in any transaction – the product can fit unobtrusively into the transaction mechanics and, these days, fits seamlessly into the transaction timetable.

A seller's motivation for turning to the product may be driven by a desire to distribute sale proceeds to shareholders or to wind up a fund. A policy offers sellers the opportunity to limit their liability (potentially at a nominal sum) and achieve a "clean exit," free from a long "warranty tail". Buy-side drivers may be the comfort provided for buyers doing deals in unfamiliar jurisdictions where they are uncomfortable with the enforceability of the contractual protection. They can also provide comfort as to credit risk where there are doubts as to the solvency of the seller.

W&I policies are becoming increasingly common in auction processes. Here, the product is used to allow sellers to simply exploit their strong bargaining power and limit their liability – simply because they can. It is difficult to see why sellers would not take advantage of this opportunity but, where they do not, potential buyers in auction processes are alternatively using the product strategically to differentiate and enhance the attractiveness of their bids.

Another motivation driving the use of W&I insurance occurs when a seller remains involved with a target company post transaction, which is common in the private equity sector. A policy can lessen the need to pursue a management team and potentially damage an ongoing working relationship.

The W&I product is continually being used in more and more innovative ways, providing solutions to deal with road-blocks and allowing such solutions to be monetised into the cost of the premium. For the time being, however, it would appear to be a missed opportunity for a seller not to insist that the buyer rely on the professional insurers, rather than clawing back the purchase price from the vendors. It has the potential to provide the seller the utopia of a risk-free sale and allow the diligent entrepreneur to enjoy the fruits of their hard-earned rewards.

CMS – our expertise
CMS is a leading adviser in the W&I insurance market, advising all key players. We have extensive experience advising insurers in connection with the underwriting of transactions and tax risks as well as advising insurers on arranging W&I insurance. Our global footprint enables us to advise on multi-jurisdictional transactions and provide local law advice where it is needed in connection with W&I insurance.

Round Table:
A Conversation with TMT Dealmakers

In Q2 2014, Mergermarket sat down with TMT experts to discuss current trends in the sector and the outlook for activity in the mid-term. The following is a record of that conversation.

Mergermarket (MM): In Q1 2014, TMT activity surged. What are the drivers underpinning growth in the sector's various segments?

Wilhelm Schulz: You need to disaggregate TMT because there are distinct trends in each of its different facets. Focusing on telecommunications, domestic consolidation among wireless players is driving a number of deals, and shows no signs of abating any time soon.

There is also a push by cash-rich wireless-only players to address a business model issue: they cannot offer quadruple play (the bundling of Internet, television, telephone and wireless services in single packages). If the market leader is offering quadruple play packages that can save on subscriber acquisition costs, that company can price its mobile offerings more aggressively. Mobile-only companies are thus struggling more to compete. To resolve this, there are a number of wireless-only players acquiring fibre assets. An example of this is UK-based Vodafone's recent acquisition of cable television operator Kabel Deutschland.

Traditional telecommunications companies (telcos) are also asking themselves what customers will pay for in the future – is it the pipe or is it the water? It was not clear if telcos would focus on infrastructure or on content and technology. We're starting to see incumbents focus more on content, exemplified by AT&T purchasing DirectTV in the US.

Christopher Watson: In addition to different sector drivers, TMT is also experiencing divergent trends based on geography. There are deals happening in the US that do not have counterparts in Europe. This is partly due to the fragmentation of the European market, and partly due to many TMT giants being based in the US. These businesses are buying data creators and data slicers, as well as companies that extend the sources of data and the ways data can be used.

However, Europe is also seeing notable activity. Some EU-based telcos, such as BT and Telefonica, have stabilised their cashflow situations and are looking for growth. We have been working on Telefonica's purchase of E-Plus, a German mobile unit owned by KPN. This transaction is a sign of renewed confidence in Telefonica.

In dealmaking, there has also been greater focus on hard assets. Everyone agrees that content and technology are most important, not infrastructure, but businesses have to own hard assets to make sure they make money from their content and technology. This is why we are seeing businesses buying towers and cable networks. As we are coming out of a weak economic period into a stronger one, controlling hard assets is a good starting point for expansion.

Frederic Hanika: In terms of software, a lot of venture capital funds made investments roughly 10 years ago that are now at the end of their lifecycles. These funds are currently offloading assets. For those still holding on to assets, sales can only be put off for a few more years at most.

In enterprise software, there have been a number of very successful IPOs. This has helped bring up valuations in the sector overall. Small companies often try to point to similar types of business that have sold for a substantial sum, and sell themselves as iterations of those valuable companies.

In addition, larger, incumbent traditional software companies are cashflow-rich, but their market is almost entirely consolidated. Meanwhile, new cloud models have not matured enough to have a lot of potential targets. We are currently in the eye of a storm, with every cash-rich corporate hunting for a few interesting targets. There will be more in the future, but right now there simply are not that many.

Frederic Hanika, Senior Vice President, Head of M&A and Corporate Ventures at Software AG

Vikas Lamba, Director at Alegro Capital

Wilhelm Schulz, Managing Director, Head of EMEA M&A at Citi

Christopher Watson, Partner, Head of Telecommunications at CMS London

Vikas Lamba: In the telecommunications space, many telcos are under revenue pressure. This is driving the consolidation of fibre assets and wireless for telcos to gain scale and reduce costs. Additionally, some telcos are moving into adjacent areas to acquire capabilities, so there is a lot of interest in cloud services, business services and data centres. In some instances, firms are also looking to acquire content.

Regarding technology, there is a significant amount of vertical, sector-specific M&A. This is particularly the case in Europe. For example, we are seeing healthcare vendors looking to buy healthcare software, and education companies looking to buy education software.

Going beyond these segments of TMT, there is not a lot happening. Media, for instance, has been relatively flat. One of the biggest deals of 2014 so far was Disney's acquisition of Maker Studios, which is just a few years old and sold for US$500m.

MM: What have been the most significant TMT deals of the past few years?

Frederic Hanika: Facebook's US$16bn acquisition of Whatsapp was hugely significant. This was a case of an incumbent willing to spend big to acquire a younger company without proven revenue streams. The deal shows that there are forms of disruption other than technology, and that it can tear businesses apart. Whatsapp's technology is not itself disruptive, but its 500 million-strong user-base is. It could have been very damaging if that user-base had wound up in a competitor's hands, which is probably why Facebook paid such a premium.

Vikas Lamba: Vivendi's sale of France's SFR, a mobile and fixed-line telco, to Luxembourg-based Altice, is a classic example of cable consolidation. It typifies many recent positive trends, like the ready availability of credit, in-market consolidation and bidding wars for strategic assets. Altice made the initial approach to Vivendi in February. Until April, there was a war of words between Altice and France's Bouygues, a rival bidder.

Wilhelm Schulz: We were working for Vivendi on this deal and it was very competitive up until the end. An interesting aspect of this transaction is that if Bouygues had been successful, it is not clear that the deal would have gone through. Given the domestic revenue concentration of the parents in France, it would have most likely been assessed by the French regulator.

MM: What M&A challenges are TMT businesses currently encountering?

Vikas Lamba: In technology, valuation gaps between buyers and sellers are still common. We see this when sellers apply market leaders' valuations to their businesses. Because of the industry's 'winner-takes-all' mentality, the same multiples cannot be applied from one transaction to the next. Sometimes buyers and sellers cannot find a middle ground and deals fall apart. It takes external advisers – like M&A bankers – to bring buyers and sellers together, to reach a compromise.

In the telecommunications sector, regulation is a major issue. Recently, Hutchison 3G Ireland sold certain frequencies and assets to meet regulatory approval for its acquisition of O2 Ireland. Although less of an issue in the technology industry, there are a few instances where regulation has proved to be a decisive factor in M&A. For example, France blocked Yahoo! from buying Daily Motion, considered to be a national champion. Although in a different sector, Swiss commodities trader Glencore's blockbuster purchase of Xstrata, announced in 2012, did not reach completion for over a year due to the time needed for regulatory approvals across multiple markets to be granted.

Political unrest is also an issue. Due to the current tension between Russia and Ukraine, we are seeing some businesses delay their growth plans in the region, although this is obviously very region specific.

Christopher Watson: Another issue is consolidation. This is present in the Telefonica and E-Plus deal that CMS is working on. The difficulties lie not simply in anti-trust regulation, but also in the European Commission's recent encouragement of stronger national champion operators, while discouraging fragmentation.

There are still massive shifts to be made. Currently, there are scores of mobile operators in Europe, compared with five or fewer in the US. Even though consolidation is desired at a macroeconomic and industry level, it will be a huge challenge for the European Commission and European Court to support consolidation. They will be changing the direction of 50 years of jurisprudence and competition analysis. Moving from an average of four operators per country to three sounds appealing, but it is not yet clear how these deals will be driven through and still be of some benefit.

Wilhelm Schulz: The issue we're having now is that in-country consolidation has been almost too successful for operators. Ireland has been more pronounced in terms of remedies in Hutchison 3G Ireland's purchase of O2 Ireland. This is a function of Hutchison 3G doing so well in Austria, following its acquisition of Orange Austria, which was subject to little regulatory scrutiny in late 2012.

Valuations are also challenging, but not only for TMT businesses. Right now, the main risk corporates are facing is overpaying, rather than macroeconomic shocks.

Frederic Hanika: In enterprise software, we are in the middle of a paradigm shift from old software to new. The old model consists of on-premises and licence software models, with a direct sales force that spends a lot of time on the go-to market. In the new model, companies like Zenprise and Rapid7 have low or no-touch go-to market routes via the cloud. They are not behaving like software, more like services.

A lot of buyers are now looking into old model-type companies and questioning whether these assets are going to survive, trying to ascertain if they will recoup on their investments. They are also asking the same questions about the new model. Companies do not seem to be completely clear whether they should buy new or old model companies.

MM: What does the future hold for TMT M&A?

Christopher Watson: There is an uncharted territory where businesses are not yet doing many deals, but they will be. The app economy is vast and is going to grow substantially. Currently, only a few app companies turn profits. When you create an app today, the odds are very much against you. App revenues are huge, but they are not apportioned in line with the investments people are making. We will soon see app farms, new kinds of businesses, acting as consolidators.

Wilhelm Schulz: I am not necessarily bullish on the medium-term outlook for the M&A market overall. I believe that we are still top-heavy on valuations. EMEA has a lot of catching up to do with the rest of

> There is an uncharted territory where businesses are not yet doing many deals, but they will be. The app economy is vast, and is going to grow substantially.
>
> *Christopher Watson, Partner, Head of Telecommunications at CMS London*

the world, but I am not sure that it will fully catch up before the next downturn.

However, I anticipate that TMT M&A will be more robust. There is a need for M&A in TMT companies' business models. Drivers will include consolidation, wireless/cable combinations and more European acquisitions by American businesses. Consolidation amongst European incumbents may also occur, depending on the way in which the EU regulatory framework evolves. Concentration amongst network manufacturers could also spur deals.

Frederic Hanika: I fully agree about the drivers for larger businesses. But there are also a lot of smaller deals in TMT. Once the IPO window closes again and the older assets in venture capital funds have been sold, we will see a valuation drop. The sales of these smaller assets will slow.

Vikas Lamba: In the telecoms industry, revenue pressures will continue to drive consolidation to reduce cost base (by acquiring scale) or to increase revenues by acquisitions in adjacent markets. Some key trends, such as cloud, e-commerce and analytics (enterprise) and mobility (consumer), are now coming to maturity and will drive M&A activity as well. We also expect to see continuing vertical market-specific M&A in the software sector, for instance, healthcare M&A, education technology, payments, and so on. In the media sector, digital will drive M&A activity as traditional media companies acquire next-generation capabilities while content and brands remain valuable. TMT looks set to remain a bright spot in the overall M&A climate.

Methodology

In the second quarter of 2014, Mergermarket interviewed 225 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.

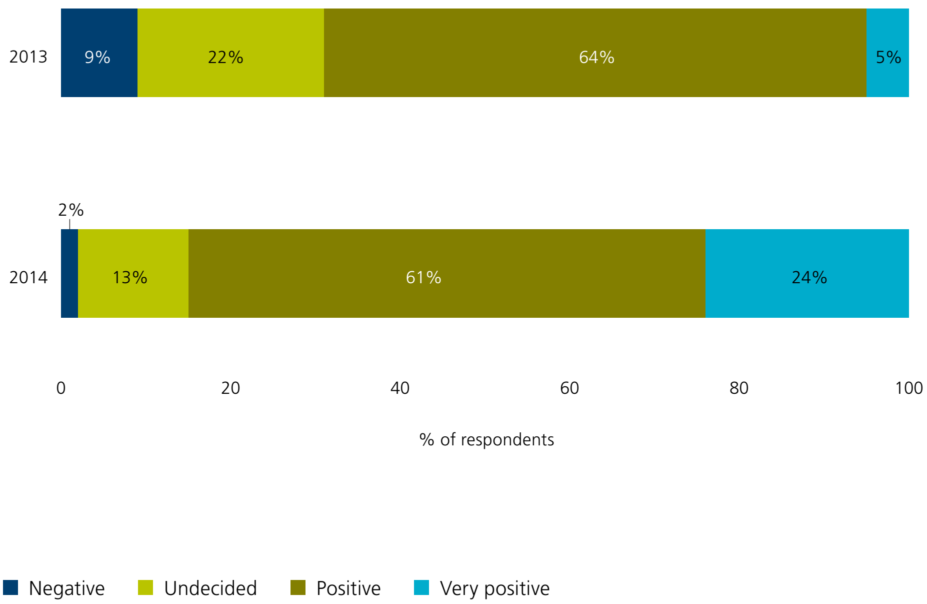
The data has been divided for comparative purposes into regions. The countries included in each of these regions are as follows:

- Benelux: Belgium, Luxembourg, Netherlands
- CEE (excluding Russia & Ukraine): Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia
- German-speaking countries: Austria, Germany, Switzerland
- Iberia: Portugal, Spain
- Nordics: Denmark, Finland, Norway, Sweden
- SEE: Albania, Greece, Turkey

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 Europe for the next 12 months?



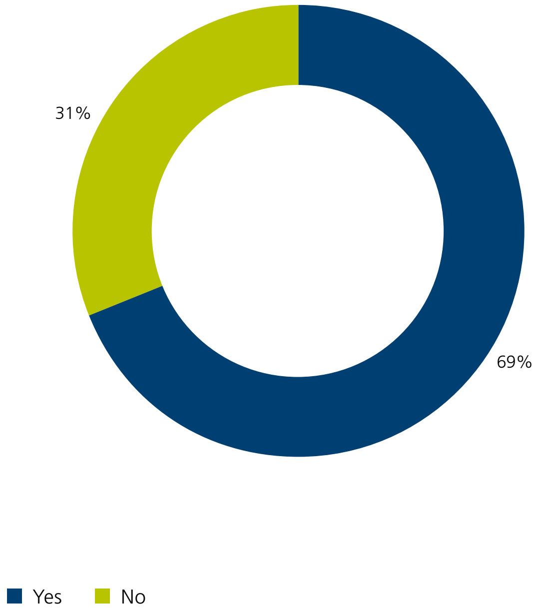
Attitudes about Europe's economic recovery have markedly improved since the first edition of our research conducted in Q2 2013. In 2014, 85% of respondents are positive or very positive about growth in Europe, a substantial 16 percentage point increase from 2013. Even more impressive, 24% of respondents are feeling very positive, compared with 5% in 2013.

Respondents' comments reflect these positive sentiments. A Sweden-based Finance Director notes: "Europe has already started growing after a long period of crisis. There is lot of optimism in the market, because most factors that were negatively impacting economic growth are less severe. We can expect positive momentum from here."

Interviewees' confidence is supported by encouraging fundamentals. The European Commission predicts that the European Union's real gross domestic product (GDP) is set to grow 1.6% in 2014, compared with 0.1% in 2013. From increases in purchasing managers' indices to upticks in consumer spending, there are numerous signs that Europe is heading toward a sustained recovery.

> Many businesses are taking advantage of relatively inexpensive buys in Europe. An increase in M&A activity fosters better prospects for economic growth in Europe.
>
> *Vice President, Strategy, Austria*

Do you think the worst of the global economic downturn is now over?

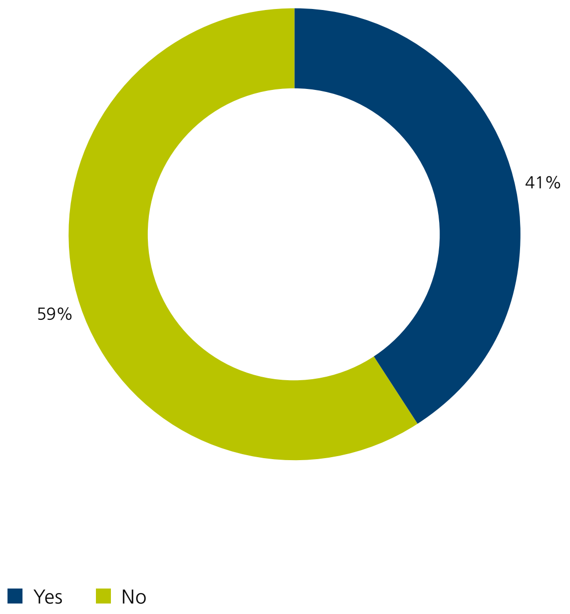


A majority of respondents (69%) believe that the worst of the global economic downturn is now over. Five years on from the global financial downturn, many respondents seem confident that the increasingly positive economic climate is here to stay.

According to an Italy-based Finance Director: "World GDP growth picked up in late 2013. Economic growth is increasingly being driven by the improved performance in advanced economies."

Yet there is a sizeable minority who expressed concerns that the global economy is not entirely out of the woods yet. "Though recovery thus far has been good and smaller crises have been overcome, there is still lot of uncertainty in the market. European countries have to remain cautious and monitor the economic climate closely to avoid further issues," comments the Director of Strategy at a Belgium-based firm. "Politically, the situation is tense because of the Russia and Ukraine fallout, which may affect recovery in the continent overall."

Do you think the current political situation in Ukraine and Russia will impact European M&A?

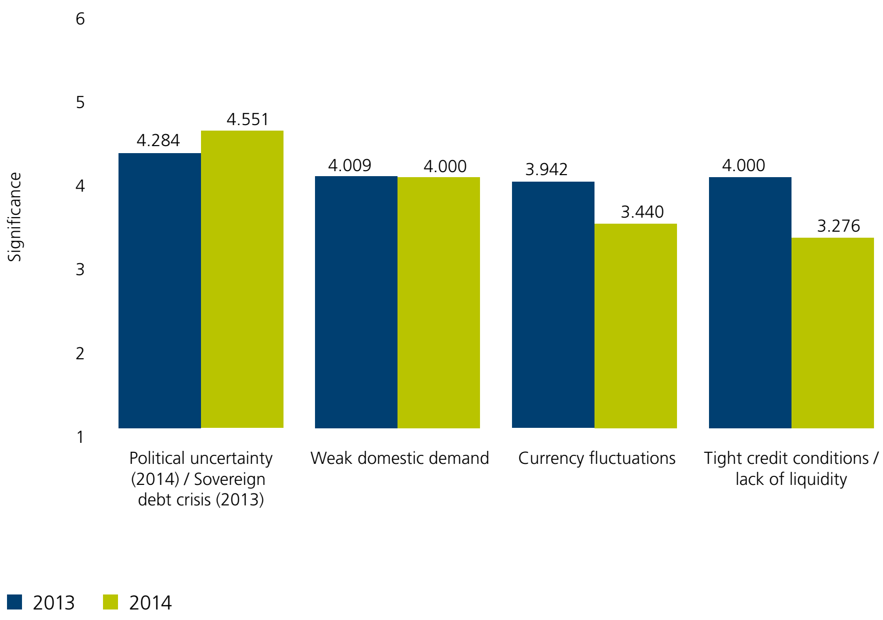


Respondents are divided over whether the current political situation in Ukraine and Russia will impact European M&A, with 41% agreeing that it will and 59% believing otherwise. With the exception of Iberia, where only 24% anticipate that the situation will impact M&A, these mixed opinions were roughly consistent across regions, including Russia & Ukraine.

Among those who believe that the Russian and Ukrainian political situation will have a detrimental impact on dealmaking, respondents point to the way in which political crises tend to put a damper on economic growth overall. "Politics impacts M&A, and can cause dealmaking to stagnate if crises are unresolved. In my opinion, the situation in Ukraine and Russia will contribute to a slowdown in Europe," comments a Head of Finance based in Sweden.

> Many dealmakers will put their M&A plans on hold because of the political situation in Ukraine and Russia, as there could be various complications and political party involvement in business activities.
>
> *Chief Financial Officer, UK*

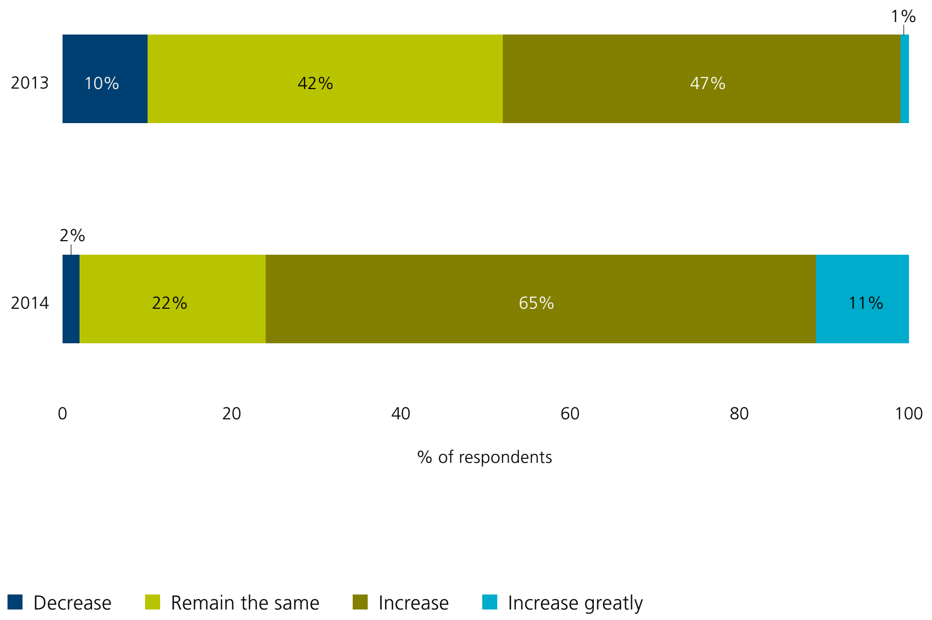
Please rate the following in terms of their threat level to European businesses over the next 12 months. (Please rate on a scale of 1-6, where 1 = insignificant and 6 = very significant)



Corporates' assessment of threats to European businesses has remained relatively constant when comparing the current survey findings with those from 2013. Respondents rate each threat in nearly the same order as they did in 2013, with 'political uncertainty'/ 'the sovereign debt crisis' still of greatest concern. One Portugal-based Finance Director elaborates: "Corporates are hesitant to spend capital today, because the economic outlook is still somewhat shaky. There is an inherent conservatism in the market – this results in concentrating on the familiar, rather than taking on risk, whether perceived or actual."

That said, there are key areas of divergence when comparing 2013's survey results with the current edition. For instance, respondents in 2013 rated 'tight credit conditions/lack of liquidity' with a score of 4, compared to a score of 3.276 in 2014. This likely reflects improved financing conditions and access to finance throughout Europe over the past year. Although bank lending remains relatively constrained, a range of alternative financing options gained in popularity and usage. Bond financing in particular has become more popular among small to medium sized enterprises. Alternative lenders such as credit funds are also more prevalent.

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

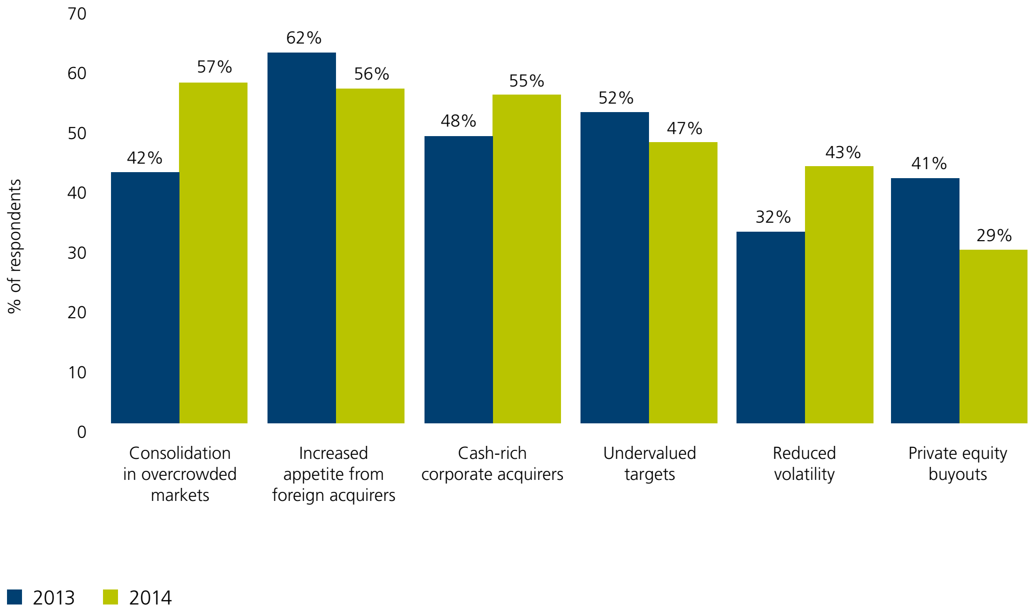


Respondents are noticeably more bullish about the European M&A outlook in 2014 than they were last year. Sixty-five percent of respondents in 2014 anticipate that M&A activity will increase, with 11% expecting it to increase greatly. This compares with 47% of 2013 interviewees expecting dealmaking to increase, and just 1% predicting that M&A would increase greatly.

Respondents' comments reflect this increasingly positive climate. A Finance Director based in Russia explains: "Recently, equity markets in Europe are experiencing a period of relative stability and are broadly on an upward trajectory. The rising market is improving boardroom confidence which, coupled with the availability of relatively cheap debt, should encourage prospective buyers to reactivate their M&A activities."

Still, some suggest that hopes of a fully-fledged M&A revival may be overly optimistic. "The widespread economic turmoil and fear of the single currency not surviving has left buyers very risk averse. We observe that due diligence findings – that would likely have been accepted in pre-crisis times – caused many deals to fail," comments an Italy-based Finance Director.

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 3)



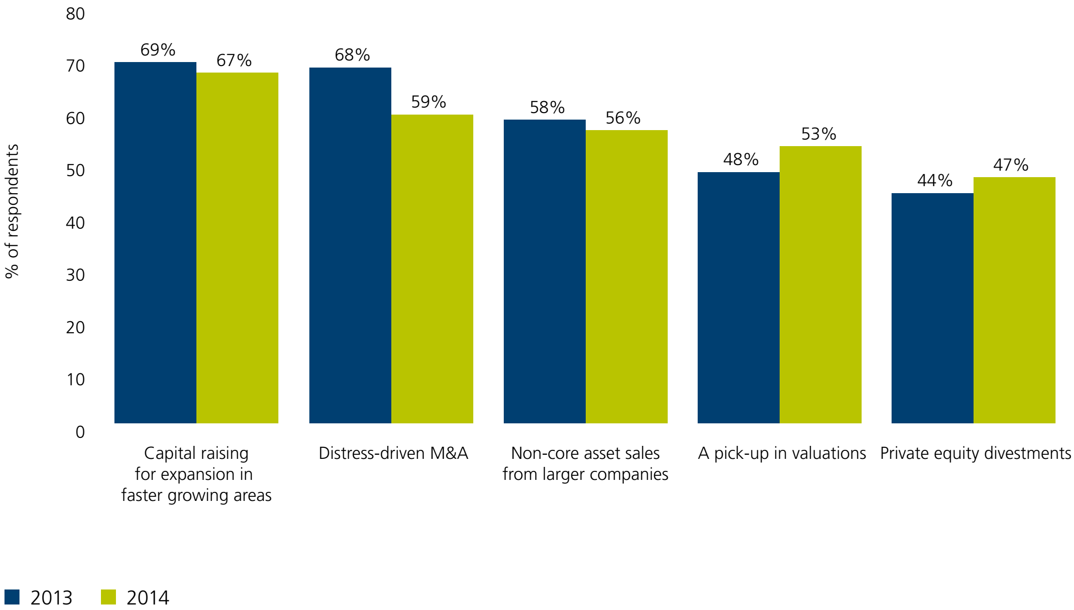
In this edition of the research, 57% of respondents say that 'consolidation in overcrowded markets' will be one of the biggest buy-side drivers of M&A. The Director of Mergers and Acquisitions at a Switzerland-based firm notes: "When it comes to M&A, many businesses will get into consolidation activities, as there are chances of adding greater value."

In the telecommunications sector consolidation is particularly evident, as the European Union moves toward a single market. Comparing H1 2014 with the same period a year earlier, TMT deal volume increased 10% to 425 deals, and value jumped 34% to €66bn. These figures provide evidence for consolidation activities. The fact that deal value has so significantly outpaced deal volume points to a concentration of large-cap deals, which are typically more transformative in nature.

Meanwhile, 43% of respondents anticipate that 'reduced volatility' will be among the biggest buy-side drivers over the next 12 months – an 11 percentage point rise from the previous study. This finding underlines that the more stable economic climate has paved the way for increased dealmaking.

> Foreign acquirers have shown considerable interest in Europe and, over the years, this interest has only increased. This has greatly supported Europe's economy, as global participation helps to build healthy businesses.
>
> *Chief Executive Officer, Finland*

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)

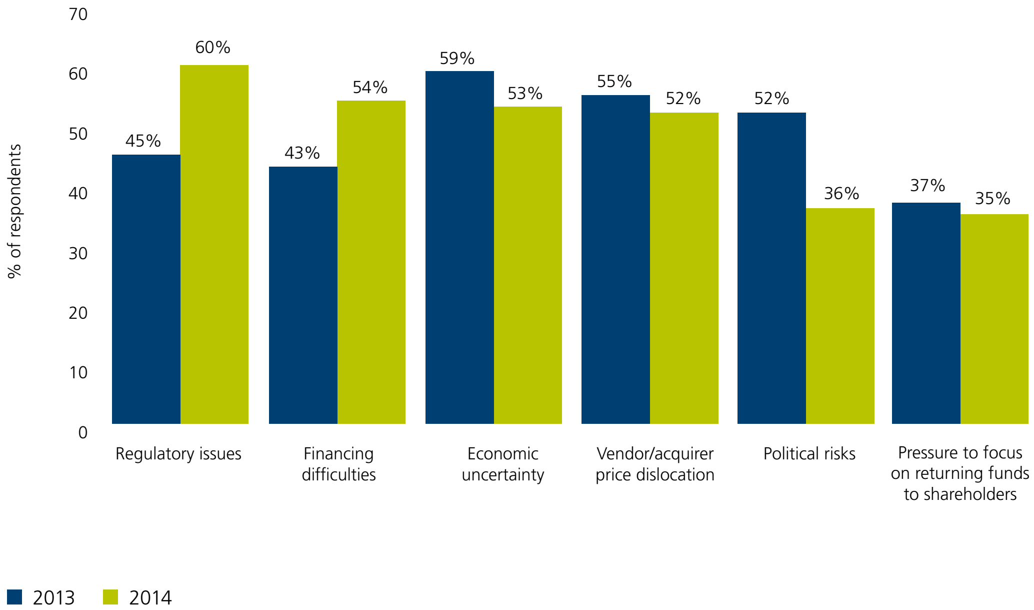


Respondents' assessments of Europe's sell-side drivers in 2014 are closely aligned with those from 2013. In both 2013 and 2014, 'capital raising for expansion in faster growing areas' is cited by the largest percentage of respondents as the greatest sell-side driver.

However, there are a few key differences. There has been a nine percentage point drop in the number of respondents who think that 'distress-driven M&A' will be among the biggest sell-side drivers from 2013 to 2014 – another encouraging sign that the worst of the global financial downturn might be over for European corporates.

The percentage of respondents who expect M&A to be driven by a pick-up in valuations has also increased, from 48% in 2013 to 53% in the current study. A Sweden-based Head of Finance comments: "As the market races towards economic growth, valuations are bound to pick up. This will help sellers to manage their liabilities efficiently. We anticipate many successful deals."

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)



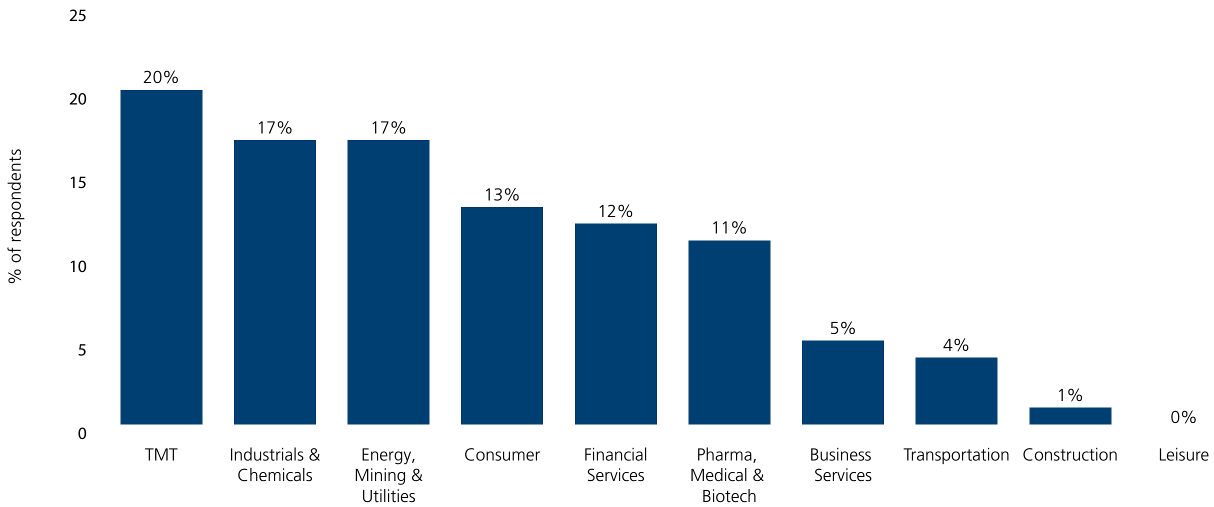
The largest percentage of respondents believe that one of the principal obstacles to M&A activity in Europe over the next 12 months will be 'regulatory issues' (60%). "Regulations based on capital adequacy requirements tend to prevent many businesses from undertaking M&A. Many firms are still having difficulty raising funds," says a Head of Finance based in Russia.

Interestingly, 'vendor/acquirer price dislocation' is a concern for 52% of respondents. Valuation gaps have plagued many dealmakers since the financial crisis. But 2014 has shown that buyers are willing to pay premiums for the right assets, particularly at the upper end of the market. Comparing H1 2014's top 10 biggest deals with those in H1 2013, combined value increased from €84.6bn to €131.9bn.

Still, a Portugal-based Strategy Director describes how pricing issues continue to hinder M&A: "The market's generally low valuations are deterring companies from selling assets, which is proving to be one of the key factors blocking a recovery in European M&A. Large companies currently prefer to sit out the downturn as they don't need to sell their assets at a low price."

> Price discrepancies will be the primary obstacle to M&A activity in Europe. When there is no understanding on pricing, deals cannot move forward.
>
> *Chief Financial Officer, Sweden*

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

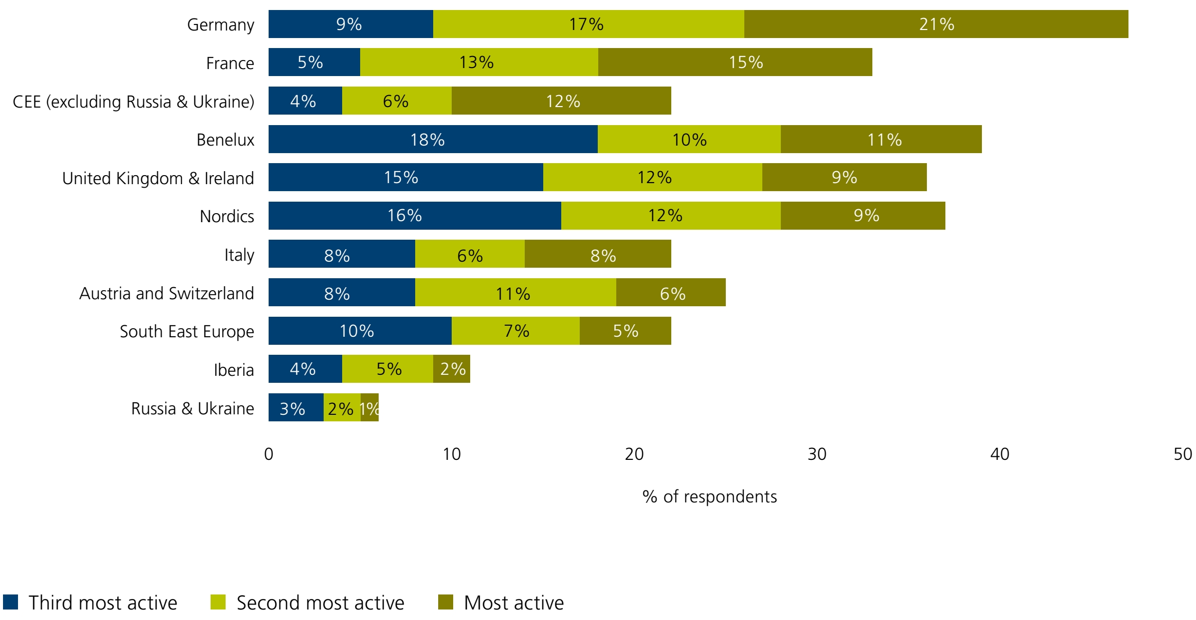


According to the largest percentage of respondents (20%), TMT is set to witness the most M&A activity in Europe over the next 12 months. This is consistent with the sentiment of respondents in 2013. Given the sector's rapid rate of consolidation – already translating into huge uplifts in announced activity – it is unsurprising that those surveyed see this continuing in the future. According to one Italy-based Finance Director: "TMT is on the rise in Europe. Many companies around the globe are trying to gain footholds in Western markets. These companies are now entering Europe by acquiring TMT assets, because the TMT sector has a good return on investment for bidders."

Tied for the second largest percentage of respondents, with 17% each, industrials and chemicals and energy, mining and utilities are tipped to be the most active sectors over the next 12 months.

> The TMT sector survived the financial crisis with only minimal losses, making it an attractive sector for acquisition. In the current economic climate, European TMT players are actually seen as offering more reasonable pricing compared to players in other regions, particularly Asia and the US.
>
> *Head of Finance, Russia*

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)

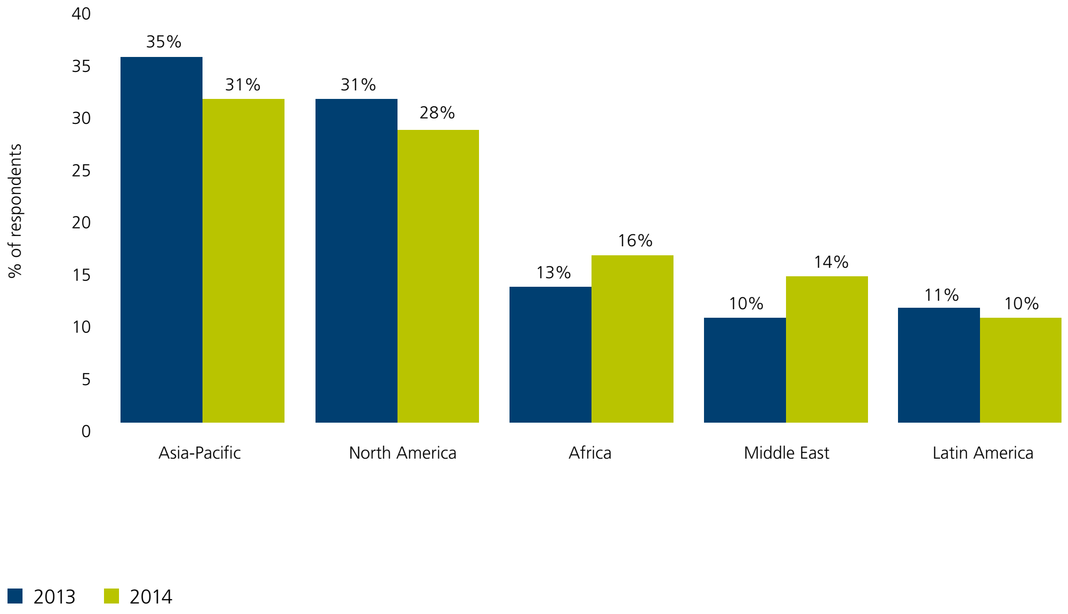


The most respondents (21%) believe that Germany will be the most active in terms of M&A activity in the next 12 months. This is unsurprising, given the strength of the German economy in the face of the last five years' global slowdown. "Foreign acquirers consider Germany's assets to be safe bets," notes a Netherlands-based Finance Director. "The automotive and telecommunications sectors have been areas where deals have been especially active."

Meanwhile, 15% of interviewees expect France to be the most active. France is one of the biggest markets for M&A, and experienced a five-year high in H1 2014 in terms of deal volume.

Furthermore, a sizeable 12% expect that CEE will be the single most active region in the coming year. Given the relatively strong economic growth in markets such as Latvia and Poland, there is confidence about the region's prospects for international buyers. A Managing Director of Strategy based in Spain notes, "CEE is known for private equity buyouts and undervalued targets. A number of foreign investors have become increasingly interested in the region's M&A opportunities."

Outside of Europe, which region do you believe European acquirers will most aggressively target over the next 12 months? (Please select only one option)



Asia-Pacific will be the most aggressively targeted region by European outbound acquirers, according to the largest percentage of respondents (31%). This is somewhat of a surprise, because European M&A into North America still far and away outstrips European M&A into Asia-Pacific. However, this response shows acquirers' enthusiasm for the high-growth economies in Asia-Pacific and indicates that the region may see an uptick in activity.

> Asia-Pacific has many developing economies that offer opportunities based on low levels of market penetration and younger populations. Many European acquirers will be drawn to these aspects.
>
> *Vice President, Strategy, Poland*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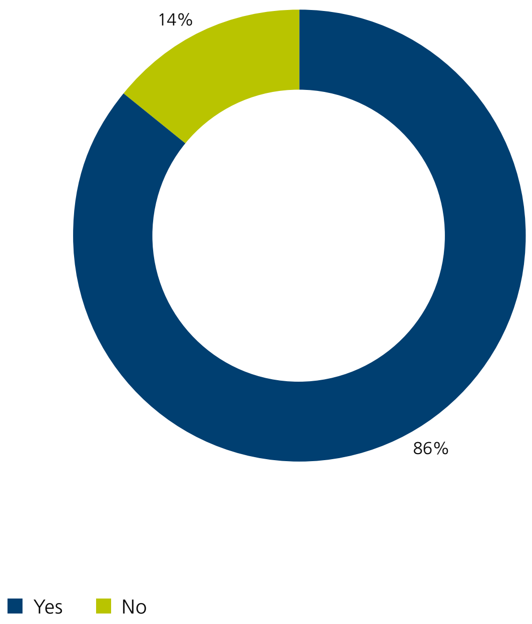
Do you expect cross-border M&A into Europe (non-European acquirers) to increase over the next 12 months?

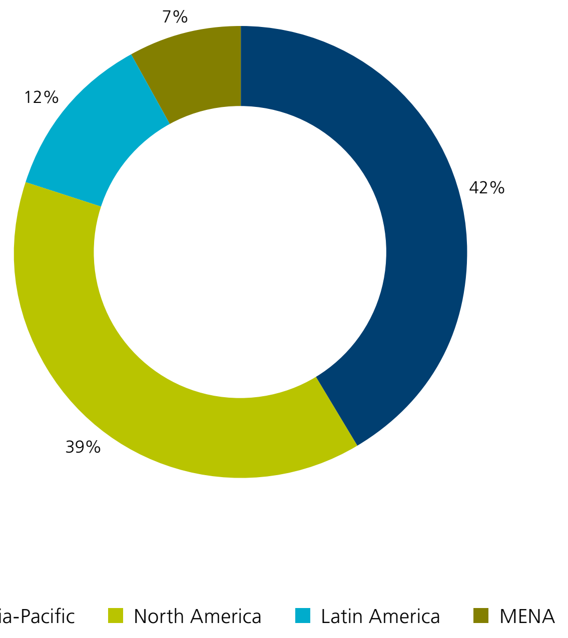


It is clear that respondents in 2014 are optimistic about growth in cross-border M&A into Europe, with 86% agreeing that dealmaking levels will increase over the next 12 months. It is also worth noting that respondents describe bidders coming from different geographies, particularly North America and Asia-Pacific.

Respondents' comments detail reasons for their positive outlooks. According to a Germany-based Director of Mergers and Acquisitions: "Consolidation in the market and signs of economic improvement are helping to attract foreign investors. Buyers from overseas are trying to take advantage of these conditions by investing in developed markets."

> Different countries' economies are at different stages of recovery from the global economic downturn, but many companies from around the world will likely consider the availability of M&A opportunities in Europe. In my opinion, inbound M&A activity is bound to increase over the next year.
>
> *Managing Director, Strategy, Spain*

Which region will be the most active inbound acquirer into Europe over the next 12 months? (Please select only one option)



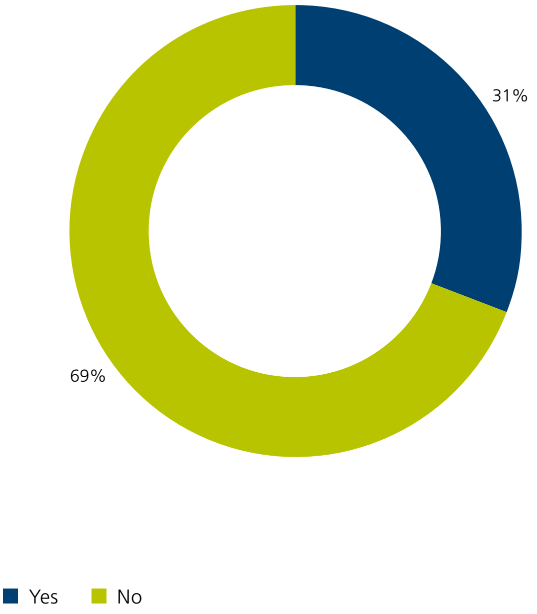
Forty-two percent of interviewees believe that Asia-Pacific will be the most active inbound acquirer into Europe over the next 12 months. Of those who cite Asia-Pacific, nearly half say China will be the most active acquirer.

Following Asia-Pacific, 39% percent of respondents expect that North American bidders will be the most active acquirers into Europe. This is somewhat surprising, given the spate of high-value transactions in which a North American bidder moves into Europe, such as US-based Medtronic's €33.9bn announced purchase of Ireland's Covidien, and the comparative absence of such deals with Asia-Pacific bidders.

Of the group of respondents pointing to North American bidders as being the most active acquirers into Europe, nearly all respondents say that the US will be the busiest bidder country.

> The North American economy is performing well, especially thanks to its abundance of natural resources. The US tends to lead the charge with global economic trends, and North American businesses will continue to look for growth in Europe.
>
> *Head of Finance, Netherlands*

Has your firm adapted its M&A strategy in response to slower European growth over the past few years?

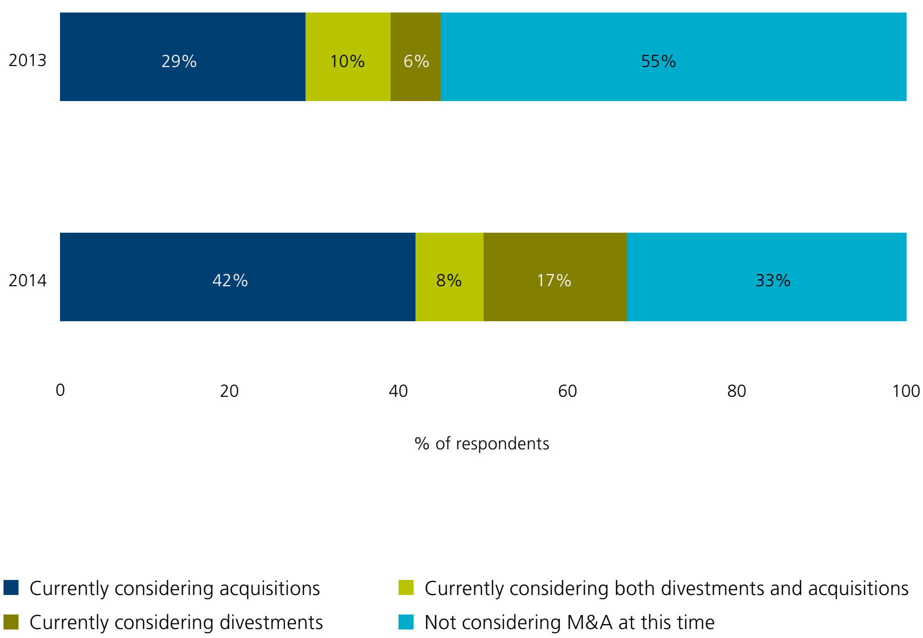


The majority of respondents (69%) say that their firms have not adapted their M&A strategies in response to slower European growth. These findings indicate that respondents' firms may have lost out on key opportunities, from moving into rapidly developing regions to mitigate against slower growth at home to identifying cost-saving opportunities through building economies of scale via M&A in existing geographies.

Among the 31% who adapted their M&A strategies, many say that their firms did so to achieve cost savings. "We had developed an M&A strategy focusing on labour-force streamlining and freezing the recruitment procedures, in order to lower the costs expended on training and developing them," says the Managing Director of Strategy at a Switzerland-based firm.

> My firm was under constant pressure to reduce operating costs. To ease this pressure, we opted for a merger that helped us to mobilise resources more effectively, and helped us to become more profitable.
>
> *Head of Mergers and Acquisitions, Italy*

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

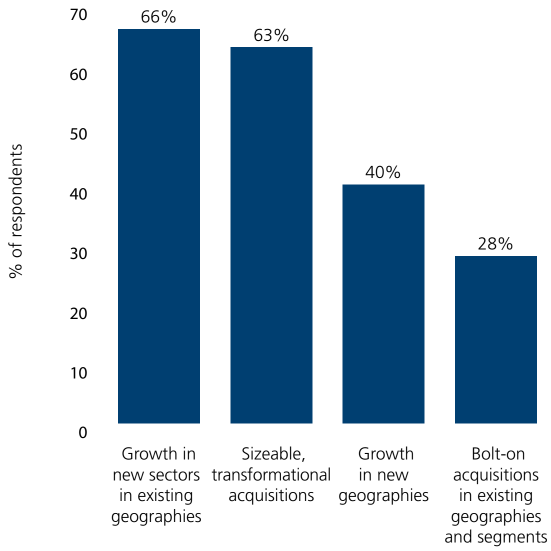


In 2014, respondents' firms are much more likely to engage in M&A activity than those interviewed in 2013. While the largest percentage of respondents in 2013 (55%) were not then considering M&A, the largest percentage in 2014 (42%) are considering acquisitions.

A Director of Finance at an Italian company elaborates: "The availability of profitable targets has increased, thanks to reduced volatility. We will look to make acquisitions in the near future."

But not all respondents are on the lookout for growth opportunities. In 2013, only 6% of respondents were considering divestments, while 17% of 2014 respondents are doing so. "Our firm is looking to reduce our organisation's size, by selling off non-core processes to improve its overall efficiency," notes a Director of Finance in Spain.

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

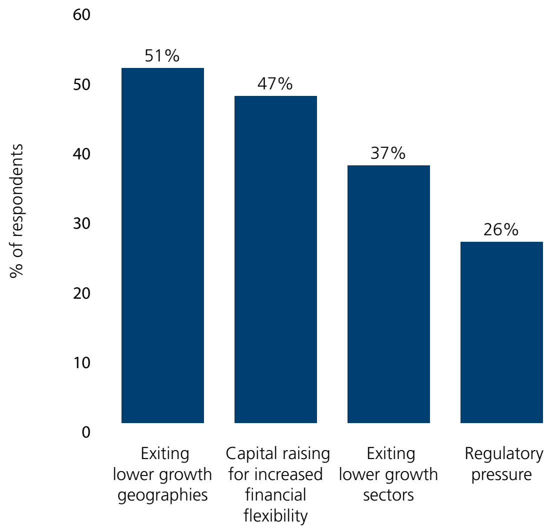


The largest percentage of respondents considering acquisitions are motivated by 'growth in new sectors in existing geographies' (66%). A Director of Strategy in the UK explains his firm's rationale: "Firms can expect better outcomes when investments are scattered among different sectors, as they get market exposure and experience in new sectors. Also, fund performance tends to get balanced because of the separate allocation of resources."

A further 63% say that their firm is considering 'sizeable, transformational acquisitions', a finding that indicates that risk appetites may be increasing. This compares to a relatively low 28% who are considering 'bolt-on acquisitions in existing geographies and segments'.

> As we are secure in our current market position, we feel we can add more value to our business by expanding distribution to new areas so that our customer reach broadens.
>
> *Director of Strategy, Norway*

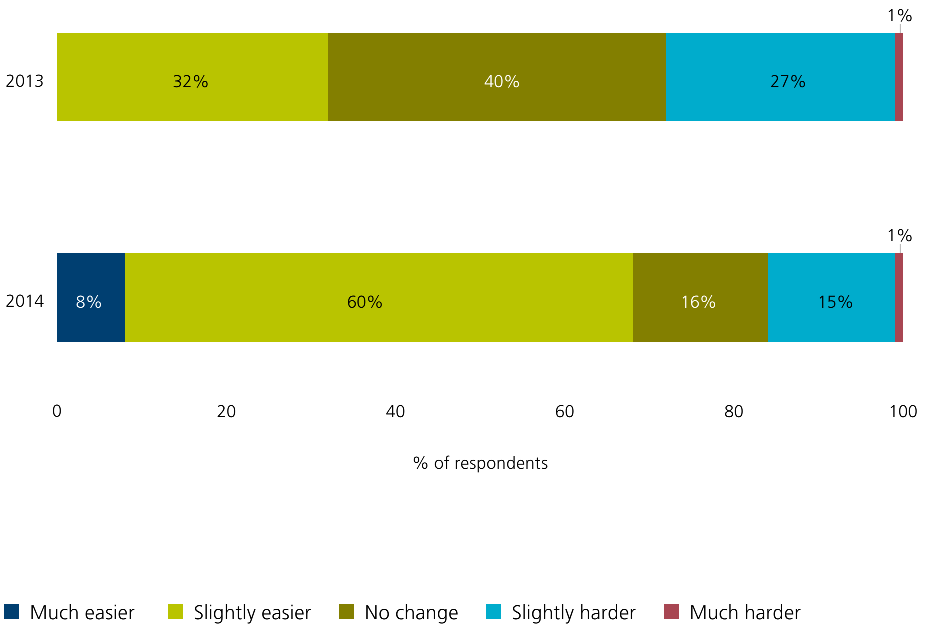
If you are considering divestments, what is the motivation for this? (Please select all that apply)



Among respondents considering divestments, 51% are doing so to 'exit lower growth geographies'. A further 47% are divesting to 'capital raise for increased financial flexibility'. A Poland-based Vice President of Strategy explains his firm's rationale for selling off assets: "We will focus on core operations, because we want to excel in what we do best. We also want to reach optimum levels of success, and for that we may need to raise capital."

> Through divestments, we hope to improve our business, its processes and prospects in the market.
>
> *Head of Mergers and Acquisitions, Italy*

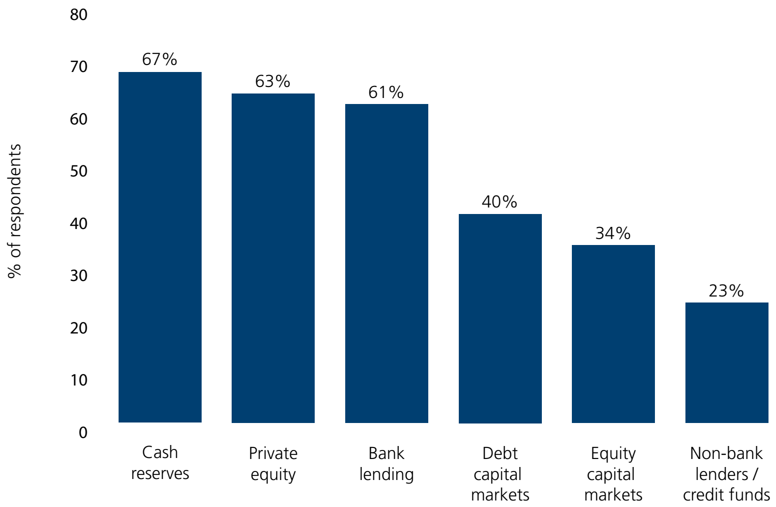
How do you expect financing market conditions to be in 2014 compared to 2013?



Respondents are much more optimistic about financing conditions in 2014, compared to the research undertaken in 2013. Only 32% of respondents anticipated that financing conditions would be 'slightly easier' in 2013, while no respondents thought that conditions would be 'much easier'. In 2014, the majority of respondents (60%) predict that the financing climate will be 'slightly easier', with a further 8% expecting credit availability to be 'much easier'.

"Financial market conditions in the EU improved in 2013, as a result of the better macroeconomic outlook and a sustained low-interest rate environment," notes a Head of Finance from Russia. "Fragmentation receded considerably in the sovereign and corporate debt markets, with bond spreads of vulnerable EU member states continuing to narrow, thanks to investor confidence in the success of ongoing fiscal adjustments and economic reforms."

What sources of financing for M&A do you think are the most available to corporates? (Please select all that apply)

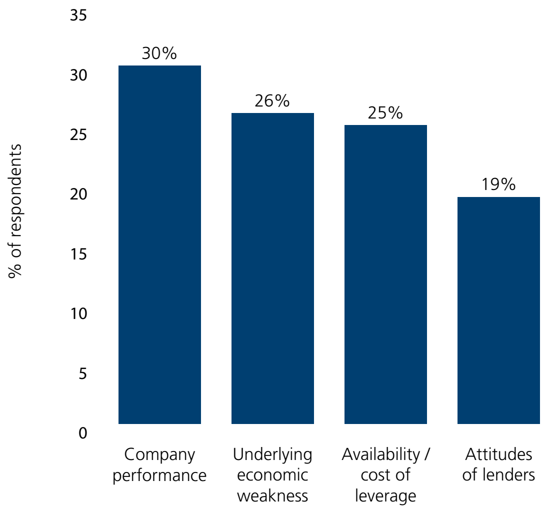


According to the largest percentage of respondents (67%), 'cash reserves' are among the financing sources most readily available to corporates. This finding is consistent with the behaviour of corporates during and after the financial downturn, when businesses turned inward and focused on their core. As a result, more corporates now have more cash on hand to finance acquisitions.

Even though private equity activity in Europe remains flat in 2014, 63% of interviewees consider it to be one of the main sources of financing for European corporates. This may indicate that respondents are optimistic about private equity activity in the near future, or may point to the relative scarcity of funding sources in general.

The third most commonly cited funding source is 'bank lending' (61%). This is somewhat surprising, given that bank lending is historically the most important source of financing to corporates.

What do you view as the greatest challenge to financing acquisitions in the next 12 months? (Please select only one option)



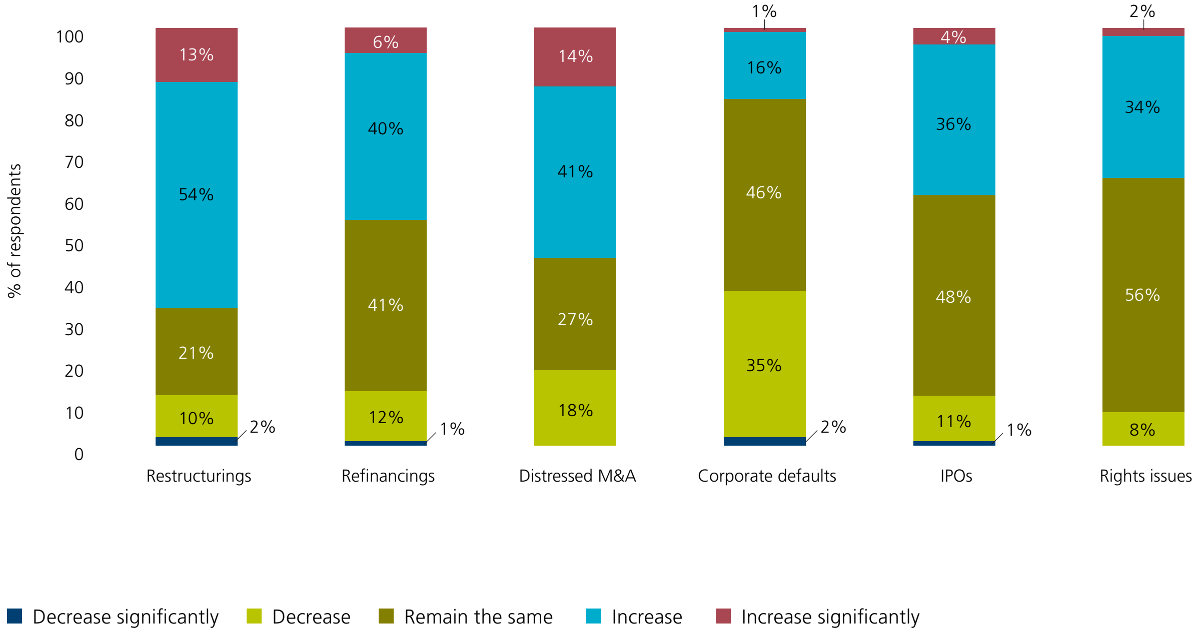
For the largest percentage of respondents (30%), 'company performance' will be the greatest barrier to financing acquisitions in the next year. Several respondents comment on the way that company performance is key to investor confidence. "Company performance will be very closely watched, as it gives financial backers a better understanding of expected outcomes on their potential investments," notes a Germany-based Director of Mergers and Acquisitions.

Respondents also indicate that the broader climate still inhibits credit availability, with 26% pointing to 'underlying economic weakness' as the main hindrance to financing. "Economic weakness reduces the possibility of receiving financing from experienced investors, as investments are made considering future returns," notes a Spain-based Head of Mergers and Acquisitions. "The European economic situation is still uncertain, so it is difficult to expect commitments."

Company performance drives M&A valuations. Many lenders are comfortable providing financial support, once they are satisfied by due diligence findings, and are assured that businesses are stable. If companies looking for financing have not performed well, they have more obstacles in financing acquisitions.

Director of Strategy, Nordics

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



Remnants of the global financial downturn are evident in respondents' predictions for the next 12 months. A majority of respondents anticipate that restructurings (67%) and distressed M&A (55%) are set to increase or increase significantly, while only 40% and 36% expect that IPOs and rights issues, respectively, will increase or increase significantly.

"Dealmakers are cautiously awaiting the renaissance of traditional private equity transactions," says an Italy-based Director of Mergers and Acquisitions. "In the meantime, attractive assets are put on sale using dual track processes to maximise price."

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