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## Deal Flow Predictor

Our quarterly prediction of future trends in the global M&A market

Forecast of global M&A activity through Q4 2019



# Welcome

Intralinks, an SS&C company, is the leading financial technology provider of software and services, including virtual data rooms (VDRs), for the global banking, dealmaking, private equity and capital markets communities and has been in business for over 23 years. Our solutions support buy-side and sell-side mergers and acquisitions (M&A) deal management, alternative investments fundraising and investor reporting, debt and equity capital raising, syndicated loan management, as well as banking, securities and legal collaboration. Our involvement in the early stages of a significant percentage of the world's M&A transactions gives us unique insight into the expected volume of future announced M&A deals.

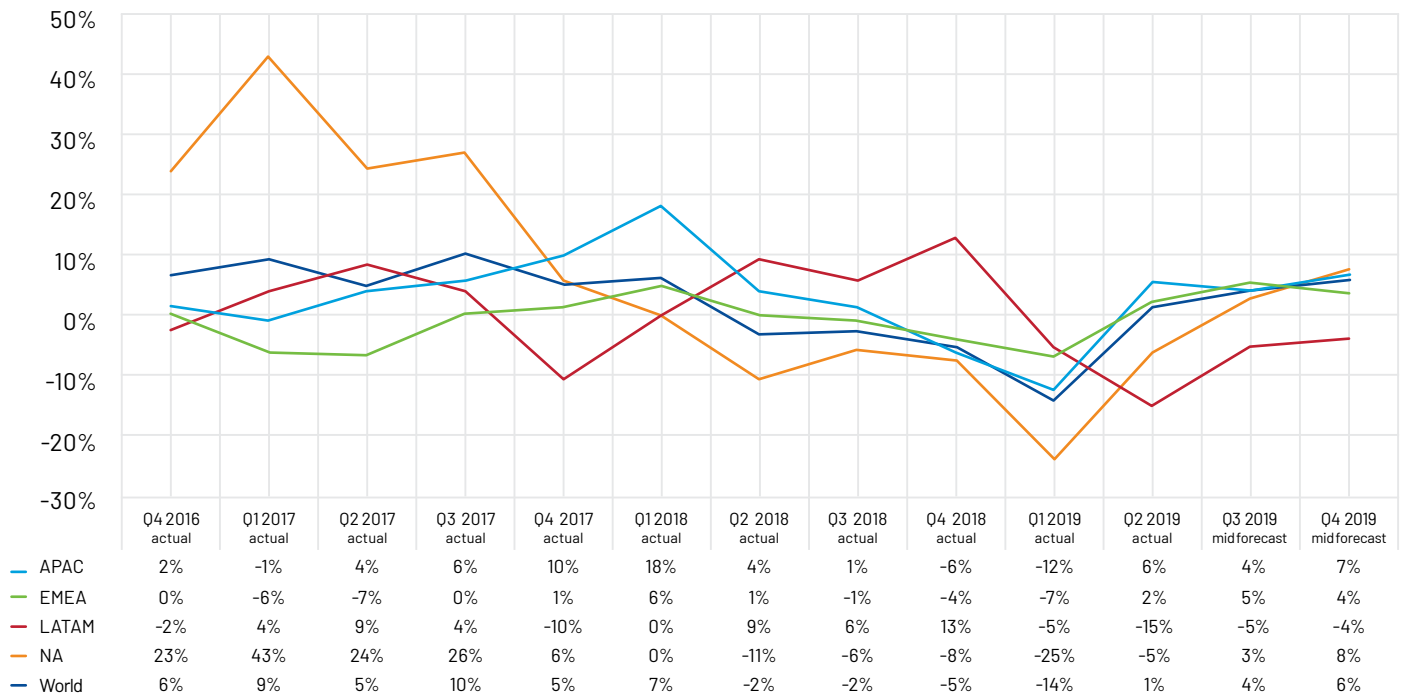
The SS&C *Intralinks Deal Flow Predictor* forecasts the volume of future M&A announcements by tracking *early-stage* M&A activity – sell-side M&A transactions across the world that are in preparation or have begun their due diligence stage. These early-stage deals are, on average, six months away from their public announcement.

Along with our forecasts of announced M&A activity for the next six months, this issue of the SS&C *Intralinks Deal Flow Predictor* includes a spotlight feature on the demise of the conglomerate, plus an interview with **Paul Aversano**, managing director in **Alvarez & Marsal's** private equity services practice and the global practice leader of the firm's Transaction Advisory Group, on what M&A dealmakers need to understand about the current "vortex of volatility."



**Philip Witchelo**  
Vice President, Intralinks

## Intralinks' mid-point forecast of the year-over-year % growth in the number of announced M&A deals, as reported by Refinitiv, for the next two quarters



The SS&C *Intralinks Deal Flow Predictor* has been **independently verified**<sup>1</sup> as an accurate six-month forecast of future changes in the worldwide number of announced M&A transactions, as reported by **Refinitiv**<sup>2</sup>.

[1] <https://www.intralinks.com/resources/publications/intralinks-dfp-explained>

[2] <https://thesource.refinitiv.com/thesource/getfile/index/ccfa0895-7ebc-47bf-ae65-b1f792034ee2> Refinitiv's data on the number of announced deals for the past four quarters has been adjusted by Intralinks for expected subsequent changes in reported announced deal volumes in Refinitiv's database

Worldwide  
M&A forecast

The demise of the  
conglomerate?

Guest comment:  
Paul Aversano

## Worldwide M&A announcements predicted to return to growth in H2 2019

Based on volumes of early-stage due diligence M&A activity in worldwide virtual data rooms over the past six months, SS&C Intralinks' predictive model forecasts that the worldwide number of M&A deals to be announced in H2 2019 is expected to increase by around 5 percent year-over-year (YOY), within a range of +10 percent to 0 percent. The strongest growth in worldwide deal announcements is expected to come from the Energy & Power, Industrials and Materials sectors. Despite the growth in M&A activity forecast for the second half of 2019, the total worldwide number of M&A deals announced in the full year 2019 is expected to fall for the second consecutive year due to the decline in M&A announcements in H1 2019.

### Asia-Pacific

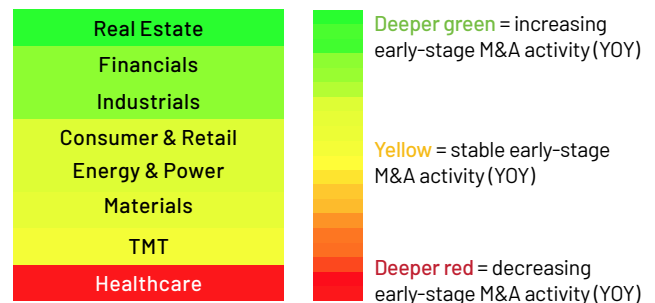
In APAC, our predictive model forecasts that the number of announced M&A deals is expected to increase by around 5 percent YOY over the next six months, within a range of +10 percent to +1 percent. The Real Estate, Financials and Industrials sectors are predicted to lead the growth in APAC M&A announcements.

Within APAC, all regions are showing growth in their volumes of early-stage M&A activity, with North Asia (China, Hong Kong), India, Japan and Australasia expected to make the strongest contributions to APAC's growth.



### APAC

Six-month mid-point forecast: +5%  
Six-month high forecast: +10%  
Six-month low forecast: +1%



### Europe, the Middle East & Africa

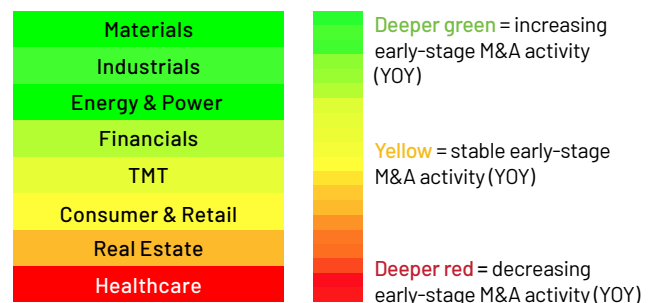
In EMEA, our predictive model forecasts that the number of announced M&A deals is expected to increase by around 5 percent YOY over the next six months, within a range of +7 percent to +2 percent, with the strongest contributions to EMEA's growth expected to come from the Materials, Industrials and Energy & Power sectors in Eastern Europe, Sub-Saharan Africa and Northern Europe.

Among the five largest European economies, Spain, the U.K. and Germany are expected to show increased levels of M&A announcements over the next six months compared with the same period in 2018, whereas levels of M&A announcements are expected to decline in France and Italy.



### EMEA

Six-month mid-point forecast: +5%  
Six-month high forecast: +7%  
Six-month low forecast: +2%



## Latin America

In LATAM, our predictive model forecasts that the number of announced M&A deals is expected to fall by around 4 percent YOY over the next six months, within a range of +1 percent to -9 percent. The Healthcare, Energy & Power and Materials sectors are predicted to lead any growth in LATAM M&A announcements.

Among the largest LATAM economies, Brazil, Mexico and Peru are expected to show increased levels of M&A announcements over the next six months compared with the same period in 2018, whereas levels of M&A announcements are expected to be flat to declining in Argentina, Chile and Colombia.

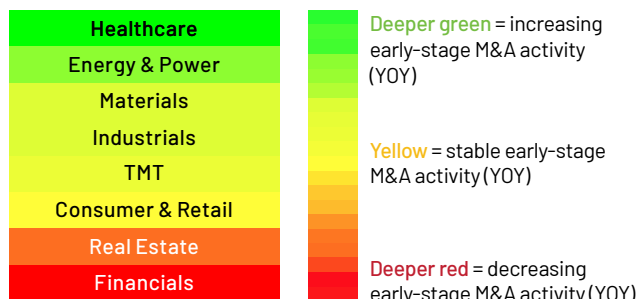


## LATAM

6-month mid-point forecast: -4%

6-month high forecast: +1%

6-month low forecast: -9%



## North America

In NA, our predictive model forecasts that the number of announced M&A deals is expected to increase by around 5 percent YOY over the next six months, within a range of +14 percent to -2 percent. The Energy & Power, Materials and Consumer & Retail sectors are predicted to lead the growth in NA M&A announcements.

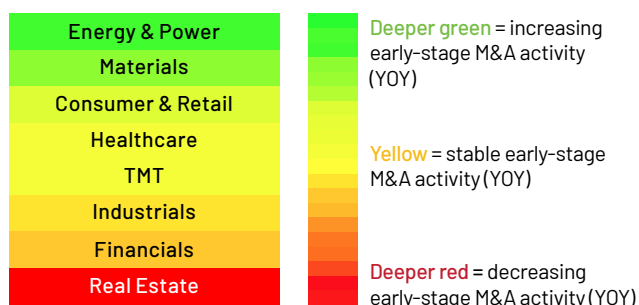


## NA

Six-month mid-point forecast: +5%

Six-month high forecast: +14%

Six-month low forecast: -2%



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# Spotlight

## The demise of the conglomerate?

There is no denying it. Over the past 20 years the corporate world has undergone a central change and is still doing so. We talk about digitalization and the impact of artificial intelligence, bridging the gender pay gap and the glass ceiling that women encounter in the business world – all aspects that are changing the way companies do business.

But businesses are also changing at a more fundamental level.

As recently as ten years ago, many larger businesses were multifaceted conglomerates, owning controlling stakes in a number of different, seemingly unrelated businesses: the U.S. giants GE and United Technologies, along with Germany's ThyssenKrupp and Siemens, are well-known examples; some might argue that Warren Buffet's Berkshire Hathaway falls into that category as well.

These business structures were largely assembled through long-term M&A strategies with the aim to "diversify business risk by participating in a number of different markets."<sup>3</sup> The structure allows conglomerates to build long-term resilience, for example, by riding out business cycles or using cashflow from one division to fund R&D in another. Jerry Davis, a business professor at the University of Michigan who studies corporate organization, said: "Conglomerates once provided efficiencies that investors couldn't get from unsophisticated capital markets."<sup>4</sup>

However, the cost of these benefits is the conglomerate discount, in which conglomerate firms typically trade below the sum of their parts. The prospect of "releasing" this discount as an immediate capital gain, along with increasing pressure from shareholders in search of yield – both long-standing, overall supportive institutional shareholders and short-term activist shareholders along the lines of Elliot Management, Wyser-Pratte and Cevian Capital – is forcing a change in the corporate landscape. A flurry of divestment and restructuring programs, carve-outs and spin-off processes is reshaping the major industrial conglomerates of the world.

### A trend in the market

GE is undergoing an extensive divestment program to address a significant amount of debt, ironically accumulated by its own extensive M&A program. GE's former chairman and CEO, John L. Flannery, was quoted as saying that "everything" was on the table.<sup>5</sup>

United Technologies, the U.S.-based industrial conglomerate known for its Otis elevator division, made headlines with its announcement to break the business into three separate entities. The company announced in late 2018 that it would spin off Otis as well as its Carrier building systems business. The remaining company, solely focused on aviation, is now led by jet engine maker Pratt & Whitney and recently acquired parts maker Rockwell Collins.<sup>6</sup>

Siemens, a German industrial conglomerate, is also going through somewhat of a restructuring and divestment process, although CEO Joe Kaeser has rejected the idea that he is in the process of breaking up the company.<sup>7</sup> That said, the carve-out of healthcare unit Healthineers along with the joint venture of its wind power business with Spain's Gamesa and the sale of its electric and hybrid-electric aerospace propulsion business to Rolls-Royce have gone a long way toward changing the look of Siemens.

The USD 63.2bn split of chemicals conglomerate DowDuPont into three separate specialized companies a mere three years after the merger of Dow Chemical and Du Pont is yet another example of this trend. In fact, global demergers reached their third-highest value on record, with 11 deals worth USD 98.3bn in H1 2019.<sup>8</sup>

A company to watch is CNH Industrial, a capital goods provider based in the Netherlands, which is rumored to be another candidate ripe for a break-up.<sup>9</sup>

One group of winners from this trend – aside from advisors and some types of investor – are private equity (PE) funds. Flush with cash after a record-breaking fundraising cycle, they are emerging as key buyers of assets coming to market.

Earlier this year, U.S. private equity firm American Industrial Partners acquired Current, a provider of energy efficiency and digital productivity solutions, from GE. Meanwhile, the PE sector was finally able to get its hands on Osram, the German lighting manufacturer spun out of Siemens, via an IPO in 2013. A consortium made up of private equity behemoths Carlyle and Bain launched an offer for the business in early July 2019 valuing it at EUR 3.4bn. Assets such as these, which may have lingered unloved in a large conglomerate structure as a "corporate orphan," offer private equity funds a fantastic opportunity to create value for their own shareholders and investors.

### Breakups in Asia's future

It's interesting to note, however, that this trend toward unravelling conglomerate structures is so far only affecting conglomerates in the West. The complex trading house structures in Japan and more traditional, family-owned conglomerates in China and India seem to be unaffected so far. However, according to a senior M&A executive at a Japanese conglomerate, this too could change. "The expectation has to be that here too these structures are going to be broken up," he said. "But I think this process is still a good 10 to 20 years off."

Activist shareholders, meanwhile, are increasingly showing an interest in the Asian market – PAG Capital and Elliot Management being two examples – and it's fair to assume that here too businesses will continue to come under pressure to streamline their operations.



Back in 2011 there were only ten shareholder activist-led campaigns in Asia; by 2017 this number had increased to 106.<sup>10</sup>

The focus of activist campaigns so far has been on operational issues, such as with Japan's Nintendo, where consistent pressure from Hong Kong-based hedge fund Oasis to make its games accessible on smartphones led to Nintendo's runaway success with Pokémon Go. Another example is Australia's Alchemia, where Sandon Capital successfully campaigned for board changes following a string of losses at the biotech company.

In South Korea, meanwhile, we are seeing early signs of the chaebol structures coming under pressure to dismantle. Chaebols are business conglomerate structures that originated in South Korea in the 1960s, creating global multinationals with huge international operations.<sup>11</sup>

Elliot Management has recently challenged South Korea's top two family-run conglomerates, Samsung and Hyundai. Elliot has called on Hyundai to provide "a more detailed roadmap as to how it will improve corporate governance, optimize balance sheets and enhance capital returns" at Hyundai Mobis, Hyundai Motor and Kia Motors.<sup>12</sup>

M&A advisors should therefore turn their attention toward the East when on the lookout for new advisory opportunities.

As a final thought, it's worth noting that while we're currently seeing a decline of the traditional, multi-industry industrial conglomerates, we should not be hasty in entirely dismissing this business structure. Google, Amazon and Facebook, all of which have been on acquisition sprees, also fall into the category of conglomerates. We have yet to see where these new-economy tech businesses are going to take us.

[3] <https://www.investopedia.com/terms/c/conglomerate.asp>

[4] <https://www.bloomberg.com/news/articles/2018-02-01/conglomerates-are-broken>

[5] <https://www.ft.com/content/97eb0712-fb79-11e7-a492-2c9be7f3120a>

[6] <https://edition.cnn.com/2018/11/27/business/united-technologies-breakup-conglomerate/index.html>

[7] <https://www.reuters.com/article/us-siemens-structure/siemens-ceo-says-breakup-is-not-the-goal-manager-magazin-idUSKBN1E81DX>

[8] <https://trendreports.mergermarket.com/reports/d2918464-ce6d-4222-b5a3-c298f98698ab>

[9] <https://www.woodlockhousefamilycapital.com/post/another-conglomerate-breakup>

[10] <https://www.financierworldwide.com/shareholder-activism-in-asia#.XSA5ro9RfIU>

[11] <https://www.investopedia.com/terms/c/chaebol-structure.asp>

[12] <https://www.financierworldwide.com/shareholder-activism-in-asia#.XSA5ro9RfIU>

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## Guest comment

### What M&A dealmakers need to understand about the current "vortex of volatility"



As the world becomes increasingly interconnected, businesses are facing pressures from many fronts. For this edition of the *SS&C Intralinks Deal Flow Predictor*, we spoke with **Paul Aversano**, who says there's opportunity on the buy- and sell-side for nimble dealmakers with a global perspective. Paul is a managing director in **Alvarez & Marsal's** private equity services practice and the global practice leader of the firm's Transaction Advisory Group, based in New York City.

For over 25 years, Paul has specialized in leading both buy-side and sell-side financial accounting due diligence for complex public and private company transactions, as well as transactions in the capital markets. A former Big Four partner, U.S.-certified public accountant, and frequent guest on Fox Business Network, Bloomberg Businessweek Radio, and many other broadcast and print media publications, Paul leads the group's global efforts in the cross-border delivery of services to private equity, sovereign wealth, family office and strategic buyers.

**Intralinks: Paul, you talk about dealmakers having to navigate a "vortex of volatility." What do you feel are the key challenges that make up this vortex?**

Paul Aversano: I have been engaged in M&A for over 25 years, and I can truthfully say that I have never seen as many variables driving the markets as we are seeing right now, nor the current levels of interconnectedness. On a macro level, we are dealing with an increasingly global economy and everything seems to impact everything else. As an example, a year ago the Turkish lira experienced a crisis, which in turn sent the U.S. stock market down. This just proves that the world is an increasingly global place.

Talking about M&A, there are some inherent pressures dealmakers must face. There are the record-high valuations, coming in at 11x multiples. These valuations could in turn create challenges when it comes to selling these assets, possibly in a down market. Then there is the record level of dry powder in the system, which Prequin in its latest estimate puts at USD 2tr, with over half of that sitting with private equity. Another factor is the large number of new market entrants competing for the same assets. Here I am thinking of sovereign wealth funds, family offices, traditional limited partners to PE [private equity] funds ... all players who have traditionally allocated capital to private equity funds but are now investing in their own right.

**But that is not all that dealmakers have to contend with?**

The risks of higher interest rates and inflation, global currency fluctuations, the trade war between China and the U.S., technological disruption and digital transformation, Brexit, increasing levels of global protectionism, election cycles with the upcoming elections in the U.S. being the greatest concern, changing tax regimes and broader geopolitical risks in such places as North Korea, the Middle East and Venezuela. The list seems never-ending, and all factors put together to me create a perfect storm of factors that could potentially impact M&A, or what I have been referring to as a "vortex of volatility."

**Let's dig a little deeper on some of the challenges you have highlighted. Talking about valuations, you note they are at a record high. Where do you see them developing from here?**

I think they will continue to stay at relatively high levels for the foreseeable future. There is just so much capital needing to be deployed, and that will continue to maintain these high valuation levels. This pressure to deploy is driving certain types of M&A activity; for example, in the U.S. right now we are seeing over 50 percent of PE deals being done as secondary buyouts and over 60 percent as tuck-in or bolt-on acquisitions. The PE asset class is right now simply offering the highest returns and continuing to attract record levels of capital for investment.

**Turning our attention next to geopolitical issues, are they really new, or are these in fact issues any generation of M&A practitioners have to deal with?**

Every generation of dealmakers has geopolitical challenges to deal with. What in my mind has changed is the volatility of the rhetoric, which seems to be escalating. Between the U.S. and North Korea, we are clearly experiencing a war of words. Does this impact M&A directly? No, but it does create a feeling of uncertainty which does have an impact on both

global debt and equity markets. There is also the risk of the unknown. One large, unforeseen geopolitical event can create havoc in the global markets.

**Let's now turn our attention to protectionism. How much is this a real factor preventing deals, and how much is this an issue that is merely attracting lots of media attention?**

This is a real issue, largely concerning China, but also some others. On a recent trip to China, I was given to understand that Chinese businesses effectively see the U.S. market as shut, which is a stark contrast to 2016 when we saw Chinese bidders in pretty much every situation. Yes, there is the issue of capital outflow restrictions that have had somewhat of an impact, but I feel strongly that the lack of Chinese bidders for U.S. assets is largely driven by increased regulatory scrutiny resulting from recent changes to CFIUS (Committee for Foreign Investment in the U.S.).

**You have also highlighted the interconnectedness of many of these challenges. Keeping this in mind, how can dealmakers best prepare themselves? What structures and processes need to be in place to ensure successful transactions?**

Value creation has been and will continue to be front and center, and a strong value creation plan, devised pre-acquisition, will be key. Financial engineering and increasing operation efficiencies will no longer be enough. Buyers will have to have a long, hard think about how they can really drive up revenues. The exact strategies will depend on the regions, but it means you need to be tactical about what our post-deal value creation plan is and have that in place pre-acquisition.

**Every challenge brings opportunities with it for those willing to take a risk and consider the long term. Where do you see the greatest opportunities?**

You are right. Chaos breeds opportunity. Yes, there are many challenges out there, but I would encourage buyers to assume the risk and find creative ways of dealing with

it. When it comes to where the greatest opportunities lie, technology is the big thing and will be for years to come. The way I see it, every deal now is a technology deal, and every company needs a digital transformation strategy. Every company needs to have a long, hard think: Am I going to be a winner due to the digital transformation my industry is going to experience, in which case I will invest? Or am I in fact going to lose out – and here I am thinking in particular about the retail industry – and we therefore might want to exit and leave the field to someone else? These are big questions that businesses are going to have ask themselves.

**Finally, Paul, can you give us your outlook on M&A for the near- to medium-term future?**

Bullish, very bullish! The fundamentals are good, there is so much dry powder that deals will simply need to be done – there is no other way around it. Am I concerned about a crash? Not really. Unlike in the financial crisis when funding for deals from the traditional lenders dried up, the money is now coming from a huge range of new sources. Those funders too are sitting on huge amounts of cash that need to be deployed. The challenge will be developing that strong and sustainable value creation story and to be stringent in its execution.

**Paul, many thanks for sharing your insights.**

It has been my pleasure.

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# About the SS&C Intralinks Deal Flow Predictor



The SS&C *Intralinks Deal Flow Predictor* provides Intralinks' perspective on the level of early-stage M&A activity taking place worldwide during any given period. The statistics contained in this report reflect the volume of VDRs opened, or proposed to be opened, through Intralinks and other providers for conducting due diligence on proposed transactions, including asset sales, divestitures, equity private placements, financings, capital raises, joint ventures, alliances and partnerships. These statistics are not adjusted for changes in Intralinks' share of the VDR market or changes in market demand for VDR services. These statistics may not correlate to the volume of completed transactions reported by market data providers and should not be construed to represent the volume of transactions that will ultimately be consummated during any period nor of the revenue or M&A deal volume that Intralinks may generate for any financial period. Indications of future completed deal activity derived from the SS&C *Intralinks Deal Flow Predictor* are based on assumed rates of deals going from due diligence stage to completion. In addition, the statistics provided by market data providers regarding announced M&A transactions may be compiled with a different set of transaction types than those set forth above.

To verify the predictive nature of the SS&C *Intralinks Deal Flow Predictor*, we compared the data underlying the SS&C *Intralinks Deal Flow Predictor* with subsequent announced deal volume data reported by Refinitiv to build an econometric model (using standard statistical techniques appropriate for estimating a linear regression model) to predict the future reported volume of announced M&A transactions two quarters ahead, as recorded by Refinitiv. We engaged Analysis & Inference (A&I), an independent statistical consulting and data science research firm, to assess, replicate and evaluate this model. A&I's analysis showed that our prediction model has a very high level of statistical significance, with a more than 99.9 percent probability that the SS&C *Intralinks Deal Flow Predictor* is a statistically significant six-month predictive indicator of

announced deal data, as subsequently reported by Refinitiv. We plan to periodically update the independent statistical analysis to confirm the SS&C *Intralinks Deal Flow Predictor's* continuing validity as a predictor of future M&A activity.

The SS&C *Intralinks Deal Flow Predictor* report is provided "as is" for informational purposes only. Intralinks makes no guarantee regarding the timeliness, accuracy or completeness of the content of this report. This report is based on Intralinks' observations and subjective interpretations of due diligence activity taking place, or proposed to take place, on Intralinks' and other providers' VDR platforms for a limited set of transaction types. This report is not intended to be an indicator of Intralinks' business performance or operating results for any prior or future period. This report is not intended to convey investment advice or solicit investments of any kind whatsoever.

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