Crowe Horwath

The Global Corporate Advisor

July 2015

The Corporate Finance newsletter of Crowe Horwath International

Welcome to the July issue of The Global Corporate Advisor.

This newsletter has a special focus on the merger and acquisition activity in Europe in the first quarter of this year.

France, Italy, Spain and the UK share the growth story in their markets. We found that ripples from the crisis in Greece are being felt in some of these countries, even as newer economic powers make an impact.

We also examine the M&A landscape in key countries in Central and Eastern Europe (CEE), including Austria, the Czech Republic, Slovakia, Romania and Poland, which account for almost three fourths of M&A activity within CEE.

Marc Shaffer
Regional Leader, North America
+1 312 857 7512
marc.shaffer@crowehorwath.com

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The GCA team is here to respond to your needs relating to M&A transaction support, valuations and advisory services. If there is a topic you would like us to cover in future issues of the GCA newsletter, don't hesitate to contact Peter Varley, Chairman of GCA, at *peter.varley@crowecw.co.uk.* Alternatively, please contact your local GCA team member to discuss your ideas.

United Kingdom

By Chulanga Jayawardana, London

Expectations were high for 2015, following a strong finish in 2014, especially in the IPO market and resurgence in buy-out activity, with high quality assets driving competitive pricing towards the end of the year. So how has the UK fared in the first half of 2015?

Overall, the UK economy appears to be ahead of its rivals in Europe with GDP growth forecast in the +2% range. With improvement in the economy, confidence among businesses is high, culminating in better valuations and a growing base of sellers. Equally, there is no shortage of buyers as the UK is increasingly being perceived as an attractive investment destination compared to its European peers. Testament to this is the growing number of international PE funds scoping for deals in the UK.

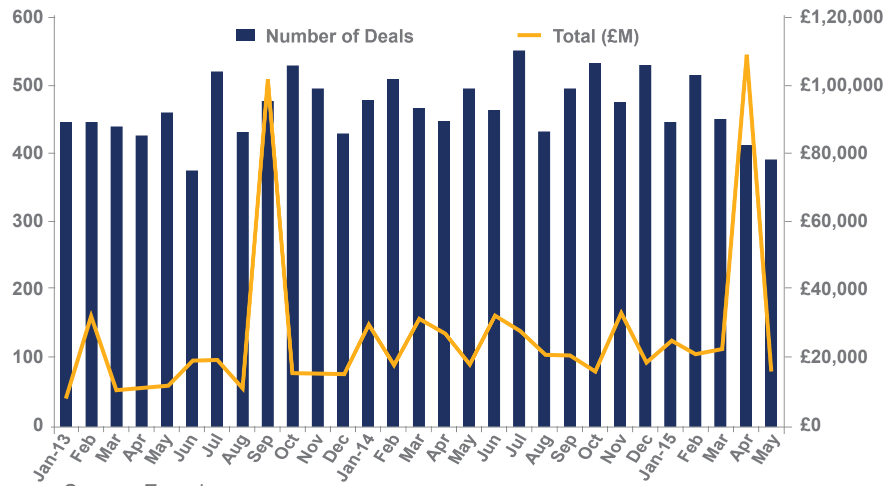
Mergermarket reported that UK M&A activity in the first half of 2015, totaling $201.5 billion, represented almost half of the total value announced in Europe, and was at its highest level since 2008.

However, it hasn't been all smooth sailing. The general election in May dampened activity, as the business community faced uncertainty with the threat of a hung parliament or a Labour-led coalition. Anticipation of change led to a rush of deal activity pre-election, but as illustrated in the graph below, deal volumes started to decrease leading up to the election. Deal value in April spiked as a result of the £47bn acquisition of BG Group by Royal Dutch Shell, one of UK's largest ever deals.

The current political instability in Greece and its potential impact on the Eurozone is of concern, as investors eagerly wait to see how things unfold in Europe, especially following the victory of the 'No Campaign' in the Greek referendum, and the recent €7bn bridge loan offered from an EU-wide fund until a bailout is approved. Even though the Greek crisis has been going on for almost five years, it forms potentially one of the biggest external economic risks to the British economy.

Another potential source of uncertainty is that the UK Chancellor of the Exchequer announced a Summer Budget on July 8, 2015, unveiling tax changes that directly impact UK taxpayers and businesses as the new government map out how they intend to fulfil their manifesto promises. The impact of these changes is yet to be seen.

Figure 1



Source: Experian

In spite of this, we see that deal appetite in the UK appears high. In particular, PE firms and strategic buyers are cashed up and driving competitive bids, making it a seller's market. We have seen that EBITDA multiples are on an upward trend, with strong businesses carrying quality earnings and high growth potential attracting multiples of over 10 times.

Compared to prior years, debt is also much more readily available, with high-street banks, alternative lenders and debts funds all competing for a slice of the action. This could possibly lead to more aggressive leveraged transactions compared to recent historical trends. We have seen a lot more transactions structured with ABL and an improving trend in debt multiples – up to four times for strong cash flow businesses –with relatively covenant-light terms.

As the UK economy returned to health so did the IPO market. In particular, 2014 was AIM's fourth best year on record, with almost £6bn raised through a combination of new and further issues. As AIM celebrated its 20th anniversary in June 2015 it had a lot more catching up to do with total funds raised to May 2015 behind by 42% compared to the same period last year. Fears surrounding the UK general election were again blamed for the shortfall; however, the market appears to have picked up since.

Despite the slow start, AIM boasts companies from more than 100 countries and 40 different sectors with a combined market capitalization of more than £70bn. This gives the market a much broader reach than any growth market worldwide and continues to be the most successful public equity market for growth companies. We continue to see a growing appetite from both domestic and international companies looking to raise funds on AIM.

For more information:
Chulanga Jayawardana is Director, Crowe Clark Whitehill, UK.
He can be reached at +44(0) 207 842 7173 or chulanga.jayawardana@crowecw.co.uk

M&A: Europe

Italy

By Paolo Ragazzi and Mauro Di Buono, Milan

The Italian M&A Market has registered a high level of activity in 2014 and in the first months of 2015. The total number of deals has reached pre-crisis levels with +60% YoY, although we are still quite below these levels in terms of volumes, despite a +43% YoY. Both, corporate strategic buyers and private equity funds played an important role in the resurgence of the market.

Corporate strategic buyers have been led by the positive performance of international stock markets, combined with a different perception of country risk. They have come from many different geographies, with a strong performance by Chinese investors, and have heavily invested in industries such as pharmaceuticals and consumer brands.

Private equity funds have also showed a very serious commitment to the Italian market on majority as well as minority deals, with a focus on the middle market. In case of larger deals, foreign funds dominated the arena and took particular benefit from the very good conditions of the acquisition financing market and from the favorable development of the hybrid capital market. The most targeted industries by PE funds have been consumer brands and retail, with an increasing interest in services and machinery engineering.

The Italian M&A market is always more dependent on foreign investors, with very few Italian strategic players acting as domestic consolidators. On the other hand, the contribution of domestic private equity funds in the small and mid-size market is quite remarkable.

The forecast for the remaining part of 2015 remains positive, thanks to the high liquidity available and the strong attractiveness of investments into our country.

As a result of all the positive factors mentioned above, and due to the successful outcome of a good number of auctions, average multiples reached record levels. The overall average of the M&A multiples in Italy, based on the *recorded transactions* of the last 13 years, shows elements of stability and recovery in the last couple of years.

Figure 3 Average multiples within the M&A market in Italy (includes acquisitions by PE funds and strategic buyers).

- **EV/Sales = Enterprise Value/Revenue**
- **EV/ Ebitda = Enterprise Value/Earnings Before Interest Taxes D&A**

Years	EV/Sales	EV/EBITDA
2002	1.2x	7.8x
2003	1.1x	6.8x
2004	1.0x	6.8x
2005	1.2x	7.6x
2006	1.6x	7.7x
2007	1.4x	8.2x
2008	1.3x	7.6x
2009	1.2x	7.3x
2010	1.4x	7.0x
2011	1.6x	7.6x
2012	1.2x	7.3x
2013	1.5x	8.4x
2014	1.9x	9.4x

Source: Fineurop Soditic estimates

Figure 2 The trend of the M&A market in Italy from 2000

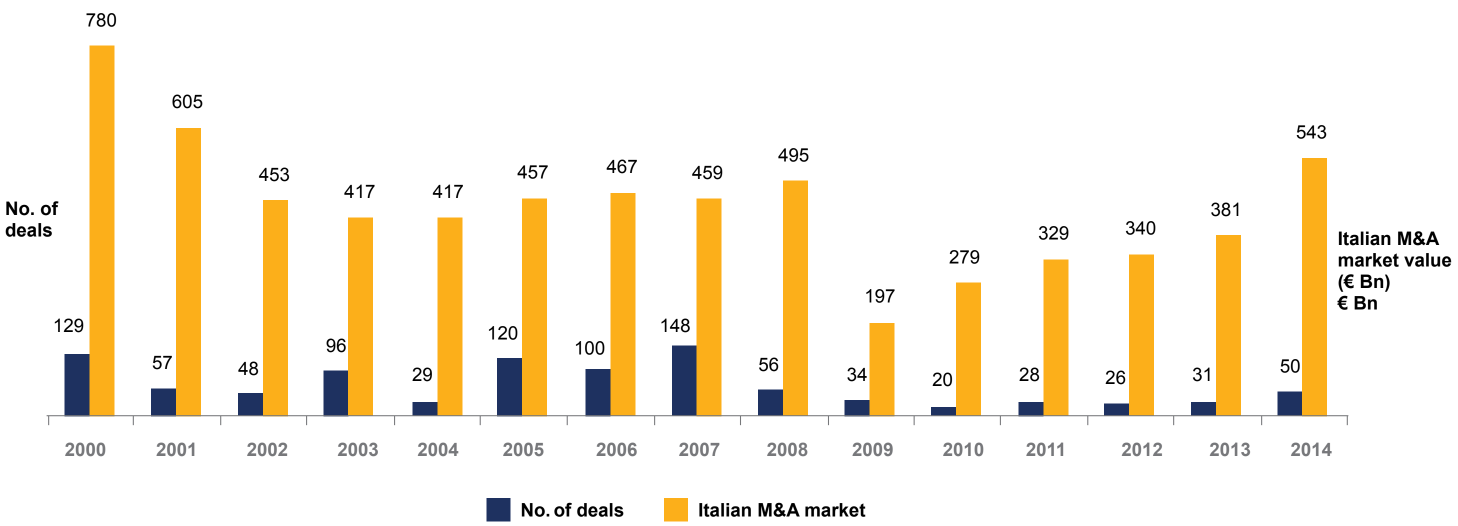


Figure 4 Average multiples within the M&A market in Italy by industry (EV/EBITDA multiple)

Industry	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fashion&Luxury	12.0x	11.3x	14.6x	14.7x	5.6x	5.4x	8.9x	8.6x	9.3x	8.0x	7.8x	6.0x	6.0x
Food & Beverage	9.3x	8.5x	6.5x	6.6x	7.5x	7.7x	9.2x	8.1x	8.2x	10.2x	10.2x	8.7x	9.3x
Chemical & Cosmetics	8.9x	8.9x	7.4x	6.3x	5.6x	6.2x	6.6x	9.1x	6.8x	9.3x	7.9x	6.4x	5.9x
Automotive	n.d.	5.8x	7.1x	n.d.	n.d.	6.6x	7.4x	7.2x	4.8x	5.5x	4.3x	n.d.	n.d.
Industrial manufacturing	6.4x	7.5x	5.7x	6.7x	7.1x	6.3x	6.0x	7.4x	6.2x	6.0x	6.2x	5.3x	5.1x
Utilities	9.3x	7.9x	8.7x	7.9x	7.3x	11.1x	11.6x	7.9x	8.0x	8.6x	7.4x	7.5x	9.2x
Leisure	9.8x	n.d.	n.d.	n.d.	n.d.	5.3x	9.0x	7.7x	13.6x	7.8x	8.3x	6.7x	n.d.
Retail chains	9.2x.	9.3x	n.d.	7.4x	10.5x	n.s.	5.9x	8.6x	8.9x	9.7x	6.8x	6.3x	7.1x
ITC & Media	10.9x	6.3x	8.8x	11.8x	6.9x	4.8x	6.5x	10.2x	6.2x	8.3x	6.5x	7.4x	7.5x
Transport	10.6x.	n.d.	n.d.	9.0x	7.7x	8.3x	n.s.	10.6x	6.6x	n.d.	8.4x	6.8x	n.d.
Furniture	11.5x	n.d.	n.d.	n.d.	8.1x	n.s.	n.s.	6.2x	7.3x	5.2x	n.d.	n.d.	n.d.
Services	9.8x	n.d.	7.4x	5.2x	n.d.	5.3x	n.s.	n.s.	n.d.	7,2x	6.6x	n.d.	n.d.

Source: Fineurop Soditic estimates

The cyclical nature of the M&A market drastically affects the number and total value of transactions. But also in times of crisis we don't witness a vertical fall of the multiples; many projects do not turn into deals due to the sharp gap between bid price and ask price.

The strength of the average multiples in harsh years is also attributed to the natural increase in recorded transactions in higher multiples from sectors such as the pharmaceutical, food and utilities, which are resistant to economic fluctuations.

On an industry basis, 2014 showed the highest average multiples because of some big operations of prestigious brands, such as Blackstone's acquisition of Versace and Enel's spinoff of SF Energy and SE Hydropower.

The analysis shows important differences among industries, both in terms of variability and multiple mid-levels.

The year 2014 saw much higher average multiples in the luxury and fashion and ICT, similar to what occurred in 2011 and 2012. It confirms what we have seen in many stock exchanges – a very high evaluation of the luxury brands with an international spread, and many high-tech companies getting listed and earning market share.

In general, it is important to highlight that the volume and number of transactions on the Italian market is still very underpowered compared to the golden years of 2005, 2006 and 2007. On average, however, valuations were at the highest.

For more information:

Paolo Ragazzi is an M&A leader at Crowe Horwath Italy.
He can be contacted at +390245391500 or paolo.ragazzi@crowehorwath-as.it

France

By Zoé Constantin, Paris

2014 was marked by a sharp increase in the volume of financial transactions in Europe. The resumption of growth, noticeable since mid-2013, has allowed a gradual return of confidence and the beginning of a new cycle of monetary transactions.

Mergers and acquisitions in France in 2014 have returned to their pre-2008 crisis levels.

In 2014, Fusions & Acquisitions Magazine identified 601 transactions and buyouts involving French companies for a total amount of €107.5 billion. This represents an increase of 77% compared to 2013, bringing 2014 figures close to 2005 records. Also, 23 transactions with a value greater than or equal to €1 billion were carried out.

According to Thomson Reuters, the volume of M&A transactions in France involving a French company accounted for 19.75% of M&A transactions in Europe, against 13% in 2013 and only 8.4% in 2012. France also gained the confidence of external investors in 2014, with the value of inbound deals rising by 600% compared to the previous year; these deals aggregated €90bn in value, according to Mergermarket. French inbound activity represented 75% of total M&A value in 2014.

According to Mergermarket, the comeback of large-cap transactions valued above €5bn boosted the annual figures with five deals representing 56% market share, the highest value since 2007. Lafarge's merger with the Swiss Holcim is by far the largest transaction; the telecom sector has been very active with the acquisition of Numericable by SFR and the Orange offensive on the Spanish Jazztel. These five deals are:

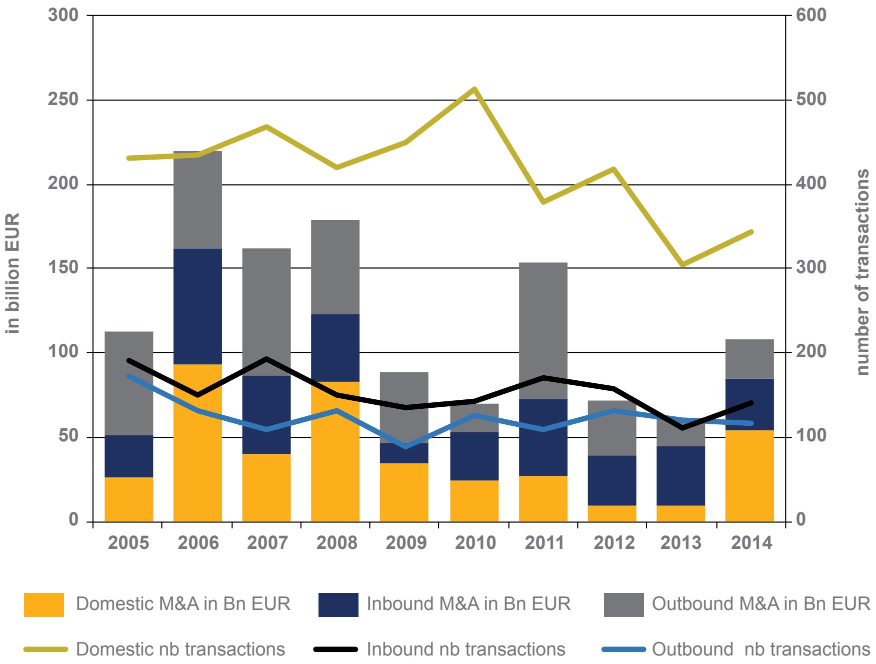
- **Lafarge-Holcim:** Announced in April, this public and cross-border deal, valued at €28.8bn caused the construction sector to become the highest valued in 2014 with deals worth €30.2bn, up from €193m in 2013. This merger is predicted to produce further activity during 2015 both in and outside of France as Lafarge divests assets to allow the mega-merger to pass competition boards.

- **Altice-Vivendi:** In this private deal valued at €17bn, Luxembourg-based Altice, providing cable television, internet, and telecommunications services, acquired France-based mobile and fixed-line telecommunication service provider SFR SA from Vivendi in the largest French TMT deal of 2014.

- **Alstom-GE:** In November, U.S based General Electric Company announced the signing of a definitive agreement to acquire the thermal power, renewable power and grid business of Alstom SA. Alstom SA, a listed France-based company, engaged in the manufacture of transport and energy infrastructure. The purchase price is valued at an all-cash equity value of €12.35bn and an enterprise value of €9.9bn.

- **Hermes-LVMH:** Shareholders of LVMH Moet Hennessy Louis Vuitton SA, the French company engaged in manufacturing and sale of luxury products, acquired 23.41% stake in Hermes International SAC, also a France-based company specialized in the design, manufacturing, and marketing of luxury products. This

Figure 5 2014 French mergers & acquisitions activity



Source: Fusions & Acquisition Magazine

- €107.5 billion worth transactions in 2014
- The amount is up 77% compared to 2013
- French cross-border acquisitions are up 46% compared to 2013.

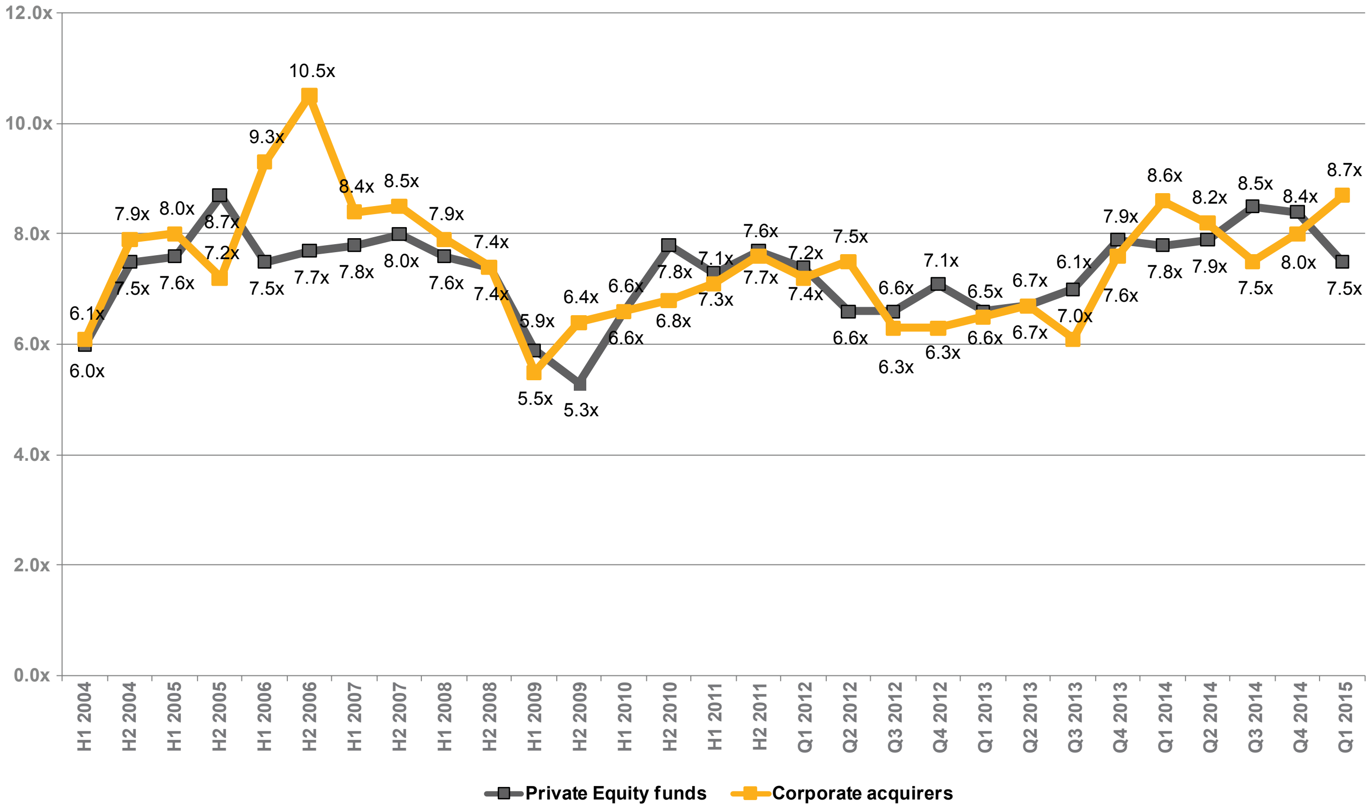
public transaction was valued at €6.4bn.

- **L'Oreal-Nestlé:** L'Oreal SA, the France-based manufacturer and distributor of personal care products, cosmetics and styling products acquired an 8% stake in its own company in a shared buy-back agreement with Nestlé, the Swiss based consumer products giant. The deal, which was completed on July 8, 2014, was valued at €6bn.

On the unlisted small and mid-market side, valuations kept increasing across Europe despite mixed conditions. According to the index by Epsilon Research for Argos Soditic, which traces operations worth €15 to 500 million, beginning 2015 multiples paid by financial investors flowed back from 8.5 to 7.5 times EBITDA, after reaching the third quarter 2014 to their highest since 2005, while those paid by industrial groups have, on the contrary, increased by 7.5 to 8.7 times. The index spotlights the growing role of corporates who have significant cash available. Beside corporates' appetite, the sector also benefits from the available liquidity in the financial system. The announcement of an accommodative policy of the ECB, in particular, induces a rebound in equity markets and mergers and acquisitions at year end, highlighting the existing link between prices paid on financial markets and private companies' valuations.

The private companies' acquisition market also benefits from the low interest rates, which have reduced the cost of debt financing transactions, and encourage investors to invest in. According to AFIC (French Private Equity Association), the overall collection of private equity funds in innovation (FCIC) and proximity investment funds (FIP) created in 2014 has increased by 12% last year, to €763 million, at highest level since 2010.

Figure 6 Evolution of mid-market EBITDA multiples



Source: Argos Soditic / Epsilon Research

For more information:

Zoé Constantin, CFA is Director at Rsa Corporate Finance, a member of Crowe Horwath France.
He can be reached at +33 1 53 83 91 28 or z.constantin@groupe-rsa.com

Spain

By Iñaki Salazar, Madrid

2014 was a very important year for M&A and the private equity activity in Spain. M&A investment volume increased 165% from €30,000 million in 2013 to €79,500 million in 2014. Private equity (PE) volume increased 31% from €2,620mn in 2013 to €3,450mn in 2014. This is significant when you think that while 2014 was considered the inflection point in M&A and PE activity, 2015 is expected to be the year for consolidation of the recovery.

The main change for M&A activity in 2014, compared to previous years, was that Spain was in the spotlight of foreign investors. This was due to improvement of economic perspectives for the country, advanced restructuring of the financial sector, the fact that many Spanish companies needed to divest to restructure their balance sheets, and the still-moderate prices compared to neighboring countries. Many Spanish corporations, especially in the energy, ICT and real estate sectors, were able to raise foreign capital through capital increases, sale of divisions and affiliates, and even through IPOs. There were also some national industrial players with a good financial position that began to reactivate their investment activity, especially outside Spain.

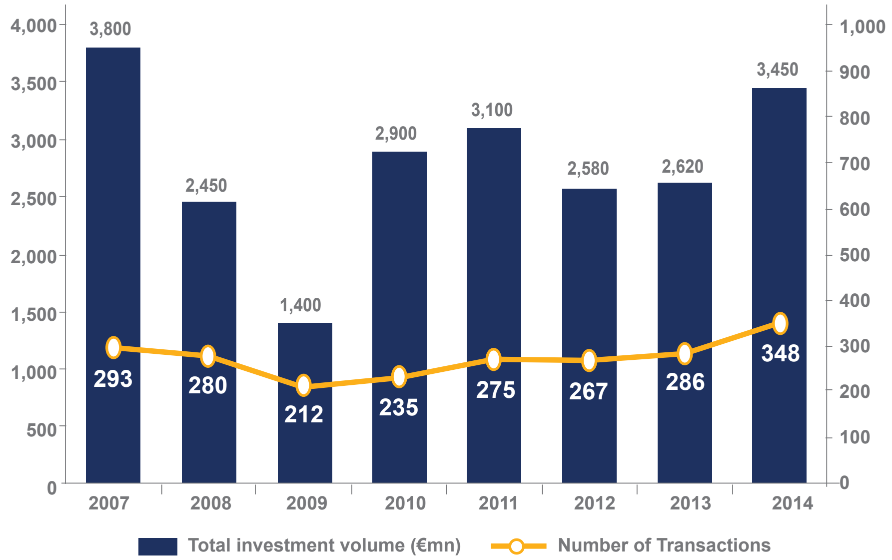
In 2014, the number of M&A transactions increased by 7.8% and the total invested value by 165%, reaching 690 deals with a total value of €79,500mn. The target companies of the 10 greatest M&A transactions in 2014 were also focused in the energy and telecommunications industries: Enersis Endesa Latinoamérica, ONO, Atlantic LNG and Perú LNG, Endesa, Santander Brasil, Telefónica Czech Republic, Repsol, Inaer, Coastal Energy and Gecina.

With regard to private equity activity in 2014, Spain experienced an outstanding recovery in investment, divestment and fundraising activity due to the improvement of the economic perspectives of the country and the fact that

Figure 7 Volume and number of M&A transactions in the period 2007-2014

Source: Capital & Corporate

Figure 8 Volume and number of Private Equity transactions in the period 2007-2014



Source: Capital & Corporate

Spain became a popular destination for this kind of investment. Increase in turnover of PE portfolios, return of initial public offerings and dual tracks fostered fundraising activity, with several examples in the national middle market (Portobello, Proa, Corpfin, Miura, and Espiga). Nonetheless, 80% of the investments still came from foreign funds.

In 2014, the number of PE transactions increased by 21% and the total invested value by 31%, reaching 348 deals (279 investments and 69 divestments) with a total value of €3,450mn. The target companies of the 10 largest PE transactions in 2014 were Acciona Global Renewables, Telepizza and Grupo Alfonso Gallardo (KKR), Altamira (Apollo), Ufinet (Cinven), Bizkaia Energía (Arclight), Goldcar (Investindustrial), Desigual (Eurazeo), Savera (Partners Group) and Endeka Ceramics (Alchemy Partners).

The outlook for M&A and PE activity in Spain for 2015 is very favorable. 2015 is expected to be the year of the consolidation of recovery. Foreign investors, both industrial players and private equity funds, will maintain their interest in Spain during 2015, leading, little by little, to a recovery of prices, attributed to competition in search of good opportunities and excess liquidity. Energy, ICT and real estate sectors will remain the most active. National industrial players will keep transitioning from a defensive divesting phase to an acquiring phase.

In conclusion, 2015 should be a good year for M&A and private equity activity so long as the macroeconomic environment remains favorable (weak euro, low oil prices and expansionary monetary policy of the ECB) and the political environment does not become too unstable (Greek crisis and general elections in Spain).

For more information:
Iñaki Salazar is Partner, Oquendo Corporate, a business associate of Crowe Horwath International.
He can be reached at +34 91 297 6454 or inaki.salazar@oquendo.com.es

M&A: Europe

Central and Eastern Europe

By Igor Mesensky, Prague

Statistics and data on M&A activity show that Central and Eastern Europe (CEE) forms an appealing region for investments. However, member countries exhibit different patterns, making local specialist knowledge crucial.

Crowe Horwath Central and Eastern Europe shares insights from our M&A specialists based in Austria, the Czech Republic and Slovakia, Romania and Poland. Together, these countries make up almost three-fourths of M&A activity within CEE.

CEE market comprises Albania, Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Servia, Slovakia, Slovenia.

Austria

- Gradual increase in M&A activity (in smaller units of percentage) continued, over 2012-2014 and peaked in Q1 2015, when the number of announced deals equalled approximately one third of all deals in 2014. This recent steep increase is attributable to the high demand for acquisition targets by strategic and institutional investors.
- Investors tend to focus on somewhat mature and profitable businesses, often production companies, technology leaders and small industries. Cheap bank financing is available to fund such deals.
- Demand for targets and availability of financing pushes the pricing on attractive targets. Since these targets are most likely based on asset value, unrealistically high valuations are rare.
- Early stage and growth financing are facing more difficult market conditions since bank financing is not easily available due to regulatory reasons. Private equity and venture capital funds seem to be reluctant as well, although some investors do keep investing.
- Real estate investments are highly sought-after in Austria.

Czech Republic and Slovakia

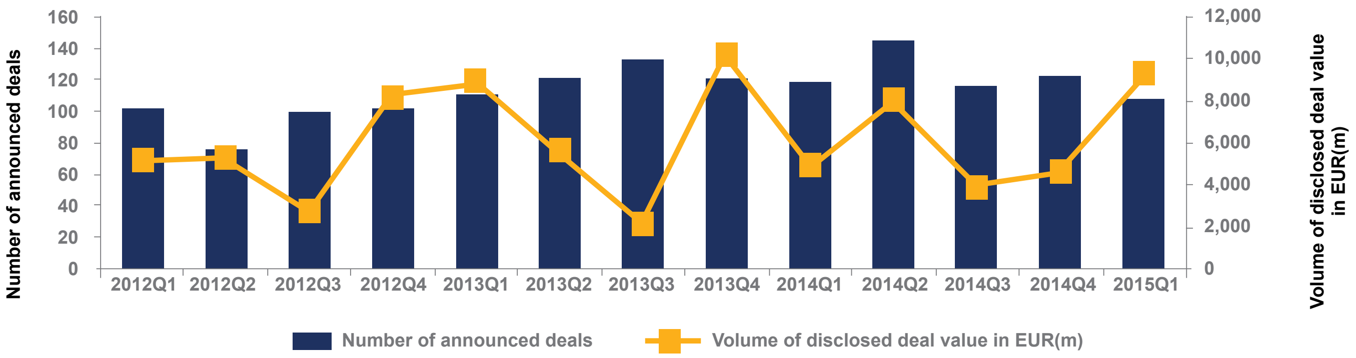
We see the following structural changes on the market:

- Sharp increase in SME deals closed in 2014 and Q1 2015. Hard data does not reflect this as these deals are under the radar of media and research agencies.
- A boom of newly-established family offices and investment vehicles sponsored by high net-worth individuals has created additional demand for deals and pushes deal value higher.
- Termination of local offices of established international private equity funds due to the lack of deals of desired sizes. The most common deal size is between €3-15 million.
- Excessive liquidity, cheap and available bank financing facilitate the growth of M&A. Local SMEs are seeking acquisition opportunities not only within CEE, but outside the region as well.
- Succession remains a key driver of M&A, with approximately 90% of transactions being driven by this factor.

As a result of these structural changes:

- Buyers want to negotiate 'off the market' with the seller to increase probability of success and to avoid competition. This means that a deal is executed between a seller and a buyer without the involvement of another investor and without organizing a tender.

Figure 9 A snapshot of the announced M&A deals in the CEE



Note: Transactions with deal value higher than $5 million are included; these represent approximately 40% of deals value.
Source: TPA Horwath Corporate Finance Czech Republic and mergermarket

- Sellers can exploit the increased demand to attain a higher purchase price and more favourable conditions.
- The current M&A market in the Czech Republic and Slovakia is buyers' market, which pushes the transaction multiples above the level usual in 2012 and 2013.

Romania

- The year 2014 was exceptional in volume and size of deals.
- The most sought-after deals are taking place in financial and medical services sectors. Other expected deals are in telecommunications and energy sectors. An improvement in the real estate deals (number and size) has been observed.
- Private equity funds are getting importance and their interest has been getting stronger.
- Romania is an EU state with the most dynamic GDP growth – it reached higher than expected 4.2% y-o-y GDP growth in Q1 2015.
- In 2015, M&A activity is expected to increase steadily, driven by the improved growth perspective of the national economy, improved investor confidence and a willingness to pursue private equity deals.

Poland

- The general pace of M&A remained subdued in 2015 YTD, with the exception of the €1+ billion blockbuster deal announced in March 2015 – the acquisition of a controlling stake in TVN, a stock exchange listed television conglomerate by the US-based Scripps Networks Interactive.
- As usual, the market is being driven by very large deals, mostly in the banking sector, and recently in real estate, the latter being predominantly attributable to the activity of foreign funds. The disposals of banks in Poland are driven principally by the strategic shifts undertaken by their current owners and need for scaling down their international operations.
- Cheap bank financing is not enough to revive the middle market due to several factors, including the inflated valuation expectations of sellers, the shortage of targets with businesses sufficiently innovative and mature enough to be attractive to private equity funds.
- The vivid demand for healthcare on the market is observable as the industry has decent prospects. Retail industry undergoing consolidation under conditions of a margin squeeze, which poses a good outlook for M&A in retail.

For more information:
Igor Mesenský is the GCA Central and Eastern European Regional Leader and a Principal at TPA Horwath in Prague. He can be reached at +420 724 586 342 or igor.mesensky@tpa-horwath.cz.

With contributions from: Roland Strauss (Austria), Krzysztof Horodko and Krzysztof Kajetanowicz (Poland) and, Cristina Petrescu (Romania).

Regional GCA Leadership

China
Antony Lam
antony.lam@horwathcapital.com.cn

East Asia
Mok Yuen Lok
yuenlok.mok@crowehorwath.net

Central and Eastern Europe
Igor Mesenský
igor.mesensky@tpa-horwath.cz

Indian Subcontinent / Middle East
Vijay Thacker
vijay.thacker@crowehorwath.in

Latin America
Francisco D'Orto Neto
francisco.dorto@crowehorwath.com.br

Oceania
Andrew Fressl
andrew.fressl@crowehorwath.com.au

Southeast Asia
Alfred Cheong
alfred.cheong@crowehorwath.com.sg

USA / Canada
Marc Shaffer
marc.shaffer@crowehorwath.com

Western Europe
Peter Varley
peter.varley@crowecw.co.uk