

Forging ahead: US M&A H1 2017

Strong fundamentals drive US dealmaking
despite macro-economic uncertainties



M&A holds steady against uncertainty and risk

First-half activity remains on par with 2016, as strong fundamentals continue to drive M&A

Though US M&A faced challenges in H1 2017, the figures show that the market is active and vibrant. There were 2,413 deals worth US\$588.5 billion recorded in H1 2017, up 0.5 percent by value compared to US\$585.4 billion registered in H1 2016. If activity continues at its current level, US dealmaking is on track for another strong year.

Low interest rates, steady economic growth and a strong stock market have provided a favorable macro-economic backdrop for M&A. Following a string of megadeals, the consumer sector posted its highest half-year value on Mergermarket record. Meanwhile, the disruptive impact of technology across all industries has prompted a flurry of deal activity, as established companies react to new business models and customer habits.

At the same time, the market has thrown up unprecedented challenges for dealmakers to navigate. Inbound activity from China, one of the most active M&A investors in the US in recent years, has fallen sharply so far this year due to a combination of protectionist leanings in the US and tighter outbound M&A regulation in China. Furthermore, dealmakers are grappling with the evolving threat of cybercrime, forcing them to adopt a more stringent and focused due diligence strategy.

And the Trump administration's pro-business agenda has not yet delivered the boost to M&A that many had anticipated. Deregulation and tax cuts may encourage transactions in the future, but currently there are questions around the ability of the administration to implement its agenda.

The success or failure of President Trump's policies—including those on tax, foreign investment, infrastructure and deregulation—will prove critical in determining the strength of US M&A. But despite current market uncertainty, the fundamentals supporting dealmaking remain favorable, and M&A's strategic value is as relevant as ever.



John Reiss
Global Head of M&A,
White & Case



Gregory Pryor
Head of Americas M&A,
White & Case

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Forging ahead: H1 in review

HEADLINES

■ Overall US M&A activity falls behind H1 2016 volume, while value registers a slight increase ■ Inbound deal value rises 26 percent compared to H1 2016, buoyed by consumer activity ■ US dealmakers remain confident acquirers overseas, with outbound deal value overtaking all half-year value totals on record ■ The consumer sector performs strongly, delivering a higher value in the first half of 2017 than in the whole of 2016

Expectations of another bumper year for US M&A failed to materialize in the first half of 2017, as total deal volume fell below 2016 levels.

In the first six months of 2017, there were 2,413 deals, an 8 percent drop from the 2,631 recorded in H1 2016. Value was up, albeit by a small margin, edging 0.5 percent ahead of the US\$585.4 billion in H1 2016 to US\$588.5 billion in the first six months of 2017. Inbound activity fared a little better, buoyed by activity in the consumer sector, with a deal value of US\$209.7 billion for the first half of 2017, up 26 percent on the same period in 2016.

Meanwhile, US dealmakers remain confident acquirers overseas, conducting 592 deals worth US\$202.5 billion in the first half of the year, overtaking all half-year value totals on record despite volume dropping 6 percent year-on-year.

Dealmakers temper their expectations

There was an expectation that momentum from the last quarter of 2016 (when close to US\$500 billion worth of deals were announced) would carry into 2017. The expectation was built around continued stock market growth and the business-friendly agenda of incoming President Donald Trump, who had laid out plans to cut personal and corporate tax rates, reduce the taxation of overseas

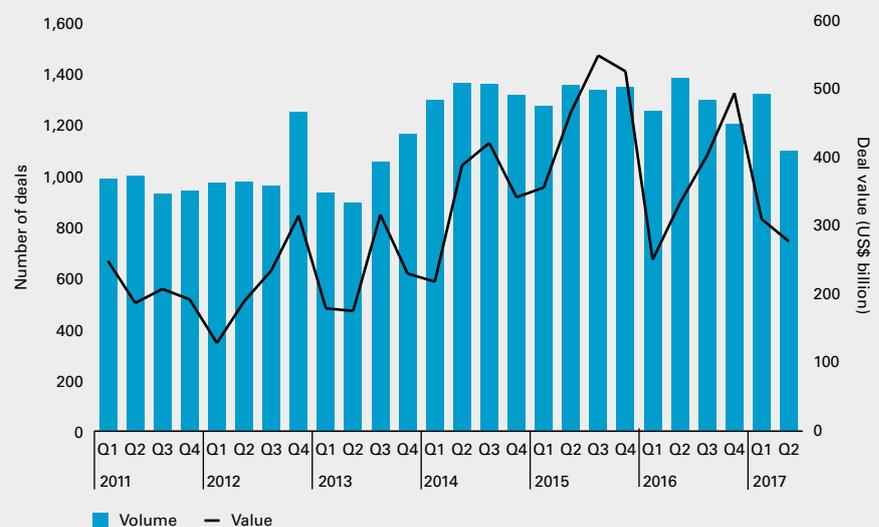
cash piles repatriated to the US, invest US\$1 trillion in infrastructure and roll back regulation.

However, doubts about Trump's ability to move his agenda through the Capitol have emerged after an unsuccessful attempt to push through healthcare reform and the botched execution of an immigration order. These factors have weighed on initial optimism.


26%
Increase in inbound US M&A value compared to H1 2016

"M&A activity does feel a bit lackluster when compared to previous years," says John Reiss, Global Head of M&A at White & Case. "Trump's agenda has been thought to be hugely beneficial for business, but there are now substantial questions about whether he can implement it, and you have to price that in."

US M&A 2011 – H1 2017





Consumer spending spree

Dealmakers will be encouraged by a return to strong activity in the consumer sector, which delivered US\$132.9 billion worth of transactions and was the most active sector by deal value in H1. This is a marked improvement for the industry, which was only the sixth-largest sector by deal value last year and has already delivered a higher value in the first half of 2017 than it did in the whole of 2016. Growth in consumer M&A can bode well for wider M&A activity, as consumer M&A is a good barometer of disposable income, employment levels and economic growth.

The deal activity in consumer will also have a positive effect on technology M&A, as consumer companies increasingly rely on digital and online platforms to sell and market their products. Amazon's US\$13.5 billion purchase of grocer Whole Foods is a prime example of how deal activity in one sector spills over into another.

Top 10 US deals: H1 2017

Announced date	Completion date	Target company	Target-dominant sector	Target-dominant country	Bidder company	Bidder-dominant country	Deal value (US\$ million)
01/17/2017		Reynolds American Inc. (57.83% stake)	Consumer: Other	USA	British American Tobacco Plc	United Kingdom	60,734
04/23/2017		C.R. Bard, Inc	Medical	USA	Becton, Dickinson and Company	USA	23,609
02/10/2017	06/15/2017	Mead Johnson & Company	Consumer: Foods	USA	Reckitt Benckiser Group Plc	United Kingdom	17,835
02/01/2017		ONEOK Partners, L.P. (60% stake)	Energy	USA	ONEOK, Inc.	USA	17,147
06/16/2017		Whole Foods Market, Inc.	Consumer: Retail	USA	Amazon.com, Inc.	USA	13,464
01/09/2017	01/10/2017	Williams Partners L.P. (32.24% stake)	Energy	USA	Williams Companies, Inc.	USA	11,358
05/22/2017		Huntsman Corporation	Chemicals and materials	USA	Clariant AG	Switzerland	10,355
04/26/2017		Pharmaceutical Product Development, LLC	Medical: Pharmaceuticals	USA	Abu Dhabi Investment Authority; GIC Private Limited	UAE; Singapore	9,050
01/09/2017		VCA Inc.	Medical	USA	Mars, Incorporated	USA	8,792
06/19/2017		Rice Energy, Inc	Energy	USA	EQT Corporation	USA	7,689

“Consumer habits have affected the way companies approach their acquisitions, and convergence between industries does drive activity in different sectors in new ways,” says White & Case partner Michael Deyong. “Scale is defined differently now. Scale is not defined by stores and leases. It’s defined by clicks and ad revenues.”

China puts on the brakes

China showed almost insatiable appetite for foreign companies in 2015 and 2016, with deal value more than doubling 2015’s record levels to US\$207.4 billion. But restrictions in China now require the foreign exchange regulator to screen and approve any deal worth more than US\$2 billion, which could hinder outbound activity.

In 2016, China was the third-biggest inbound M&A investor into the US, with US\$62.6 billion worth of deals. Only Canada and Germany closed deals worth more. In the first half of 2017, however, China ranked only ninth, with US\$6.1 billion worth of deals.

Trump’s “America First” rhetoric may prove a further barrier for Chinese firms looking to do deals in the US. The decision by US authorities to block Fujian Grand Chip Investment Fund’s US\$550 million acquisition of technology group Aixtron last year due to national security concerns also indicates the increased scrutiny surrounding Chinese investors pursuing even non-US transactions with an affiliated US business involved.

“There are some concerns that the US is perhaps not as friendly to China as it used to be, and if you put that together with the limitations in China on capital outflows, then it does put inbound M&A from China under pressure,” Reiss says. “That is a concern, because China has been one of the most important stories in the M&A market in recent years.”

Strong fundamentals persist

Despite these headwinds, deal figures for the first half of 2017 remain high by historical standards. Deal volume and value in H1 2017 was higher than in any H1 period from 2011 to 2013. There may be some signs that the market

Cybersecurity and the c-suite

The c-suite is responding more proactively to cyber risks during the M&A process, but implementing effective due diligence practices remains a challenge

The business community is grappling with the evolving threat of cybercrime. Research firm Ponemon Institute puts the average cost of a breach at US\$7 million for US companies, while Juniper Research predicts that the global cost of cybercrime will reach US\$2 trillion by 2019. In a recent Mergermarket survey, 68 percent of respondents said initiating due diligence early is of utmost importance in mitigating cybersecurity risks.

Despite increasing awareness across all sectors, many c-suite executives are still unsure how to respond to the threat of cybercrime and how to build cybersecurity into their wider business and M&A strategy.

“The c-suite understands that cybersecurity is a material issue that could affect their business,” says White & Case partner Steven Chabinsky. “What is still lacking is an understanding of how senior leadership gets into the risk management process. The c-suite is still too focused on this being an information technology issue and not a whole of business issue.”

Deal diligence disrupted

M&A is one area in particular where the c-suite needs to be more proactive on cyber risk. Chabinsky believes that while companies have been good at reviewing compliance, there is work to be done when it comes to carrying out effective due diligence. “A lot of the c-suite is relying on representations and warranties as their primary defense against subsequent privacy or cybersecurity events,” says Chabinsky. “The issue there is that those reps and warranties really may not be sufficient, as they may not capture the full extent of the harm to a business from a pure dollar perspective.”

Kevin Petrasic, partner at White & Case, says that in addition to a thorough review of all representations, warranties and caps, technology due diligence should also review the integration of a target’s technology infrastructure, how the target shares data with third parties and the risk of exposure to a cyberattack through the target. “It is simply good practice for companies to monitor cyber vulnerabilities in the context of an acquisition, and understand exactly where the risks are and what price concessions may be appropriate if it turns out that an acquirer is taking on risk,” Petrasic says.

The challenge facing acquirers is how to gain this insight in an acquisition process when time and resources are scarce. Petrasic adds, “I don’t think there’s necessarily a magic bullet. I think it’s about being informed, and understanding what the potential risks are by understanding the structure, industry and particular circumstances of the target.”

is slowing after record levels of activity from 2014 through 2016, but the outlook for M&A is still positive on balance.

The US economy is expected to continue growing steadily, with the World Bank forecasting growth of 2.1 percent in 2017 and 2.2 percent in 2018. This is higher than forecasts for the Eurozone and compares favorably to faster-growing but riskier emerging markets. Debt markets are open and with interest rates at 1 percent (significantly lower than 5.8 percent average over the last 50 years), financing is accessible and cheap.



Consumer habits have affected the way companies approach their acquisitions. Scale is not defined by stores and leases. It’s defined by clicks and ad revenues.

Given these solid economic fundamentals, it isn't a great surprise that the seven of the 10 largest M&A deals in the world in H1 2017 involved either a US bidder or a US target. The US remains an attractive jurisdiction for overseas buyers, with five of the 10 largest US M&A deals in the first six months of the year involving a bidder from overseas.

"Even when you put aside the benefits of the pro-business Trump agenda, the US is in good shape and continues to give buyers confidence.

M&A remains a strategic imperative for corporates that need to grow, private equity has money to invest and the financing market is supportive. If you look at the fundamentals, they are favorable," Reiss says.

Taxing times

Trump's proposed tax reforms have the potential to significantly change the way US firms conduct M&A at home and abroad, although they may be a mixed bag for dealmakers

Dealmakers have been cautiously optimistic about President Trump's and the House GOP's proposed tax reform plans. Underpinned by a strategy to cut rates, remove special-interest deductions, move to a territorial rather than worldwide system and provide a one-time reduced rate on earnings repatriated from abroad, the proposed reforms hold the potential to provide a significant boost to US M&A activity.

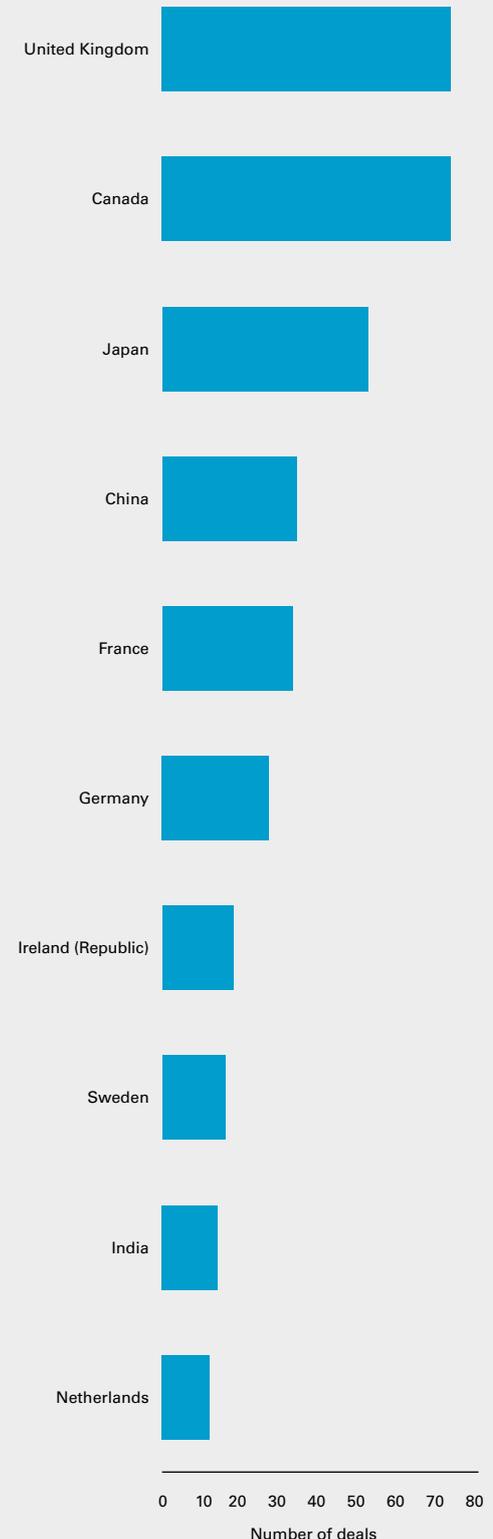
But White & Case partner Andrew Kreisberg cautions against over-enthusiasm, as uncertainty around the implementation of the reforms needs to be priced into M&A forecasts. "We really have very little indication as to which of these reforms, if any, will happen," Kreisberg says.

Kreisberg also points out that even if the full package of reform is implemented, the changes will not necessarily benefit all investors. One proposal in the House GOP plan, for example, is to eliminate the deductibility of net interest expense, which Kreisberg says would have "a very prominent and obvious effect on M&A," as the removal of such deductions would make any deal using leverage instantly more expensive. "This would be a significant disadvantage to private equity (PE) funds who more commonly borrow significant amounts to engage in buyouts, versus strategic buyers," Kreisberg says.

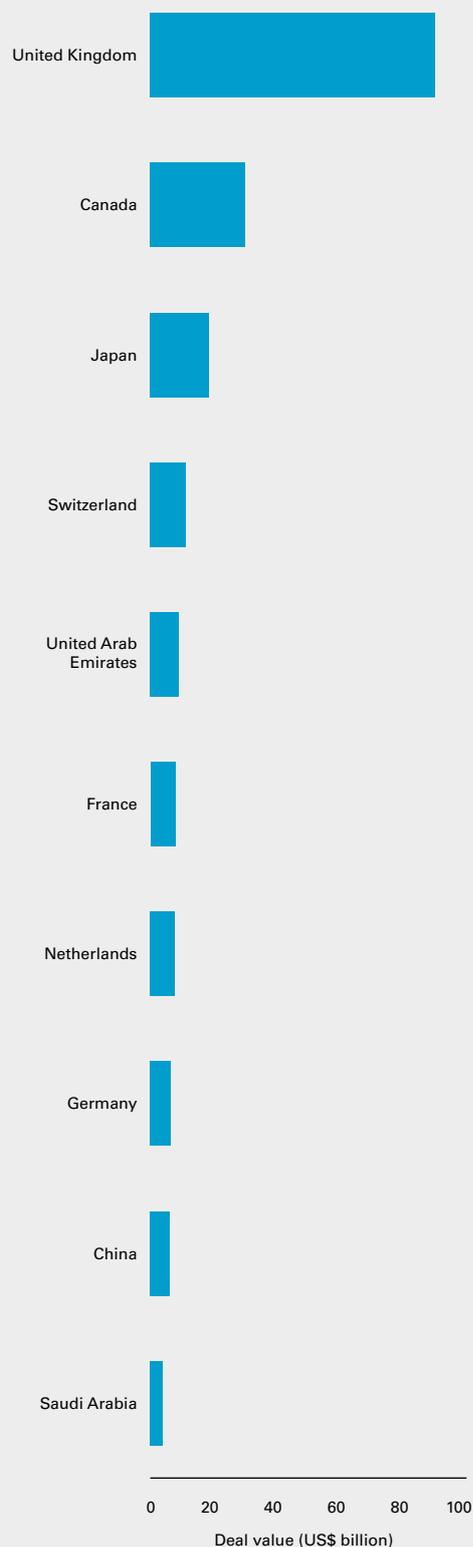
Another proposal to allow for the immediate expensing of investments in both tangible and intangible assets (not including, however, financial assets or land) rather than depreciating such assets over time, could, however, be a positive for M&A. It could also impact the form that such transactions take. "This would strongly favor asset purchases rather than stock purchases, because stock would be treated as a financial asset that would not give rise to this immediate deduction," Kreisberg says.

The Trump administration and the House GOP have also proposed moving to a territorial system of taxation, which, when combined with reduced corporate rates in the US, should remove the incentive for inversions. "If we go to a territorial system, then foreign earnings should not be subject to tax in any event, so there would not be the motivation to shift those operations abroad," Kreisberg says.

Top 10 inbound bidders by deal volume, H1 2017



Top 10 inbound bidders by deal value, H1 2017 (US\$ billion)



The CFIUS clampdown

Inbound M&A from China is down this year, as CFIUS continues to scrutinize incoming deals on national security grounds

The Committee on Foreign Investment in the United States (CFIUS), a US government body that reviews the impact of inbound deals on US national security, has ramped up its scrutiny of Chinese deals. In 2016, inbound transactions from Chinese companies hit a record high of US\$62.6 billion, a more than five-fold increase on 2015 totals. In H1 2017, however, inbound M&A from China is down sharply, with only US\$6.1 billion worth of deals announced.

Heightened concern around US national security has given regulators reason to rigorously scrutinize inbound investments from China, according to White & Case partner Farhad Jalinous.

“There is undoubtedly a heightened level of apprehension about how transactions coming from the more sensitive parts of the world will progress,” Jalinous says. The concern has also created caution among some buyers, who are unsure about the eventual outcome of their transactions. “Twenty years ago, few outside of Washington and traditional national security-related M&A circles knew what CFIUS was, but now it is covered in the mainstream media all the time,” says Jalinous.

Jalinous adds that although the laws and regulations applying to how CFIUS assesses transactions have not changed so far this year (even though proposals for change are expected to be coming soon), there is a sense that CFIUS clearance can now come into play across a wider range of transactions, which has had implications for Chinese deals. “There has to be a very careful consideration of the facts of a deal, including the identity of the buyers, their backgrounds and sources of financing, the target company and its business, and the risk profile of the transaction from a US national security perspective,” Jalinous says. “It is not enough to just look at how a target company’s activities relate directly to national security, but also indirectly. From the government’s perspective, there is a universe of factors, which can have a significant impact on US national security—and sometimes even the target companies involved are not aware of their sensitivity from a national security perspective.”

Although inbound buyers are exercising caution, the number of CFIUS filings remains very high, Jalinous points out. “Based on the number of filings so far this year, I would not be surprised if we end the year with over 250 filings, which is a remarkable number.”



Sector Watch: Consumer consolidation drives top-end deals

HEADLINES

■ The consumer sector has recorded higher deal value in the first half of 2017 than in the whole of 2016, with 222 deals worth US\$132.9 billion ■ Energy, mining & utilities took second place, with US\$118.1 billion spent across 189 deals, followed by pharma, medical & biotech, with 244 deals worth US\$98.2 billion ■ Technology, media and telecommunications generated the highest number of deals (527), despite deal value dropping by 26 percent compared to H1 2016

Following a host of mega-deals, and with the US\$13.5 billion megadeal between technology giant Amazon and high-end grocery chain Whole Foods recently grabbing headlines, the consumer sector delivered its highest half-year value figure on Mergermarket record. With 222 deals worth US\$132.9 billion, consumer was also the most active sector by value during the period, followed by energy, mining & utilities and pharma, medical & biotech.

Consumer leads the way

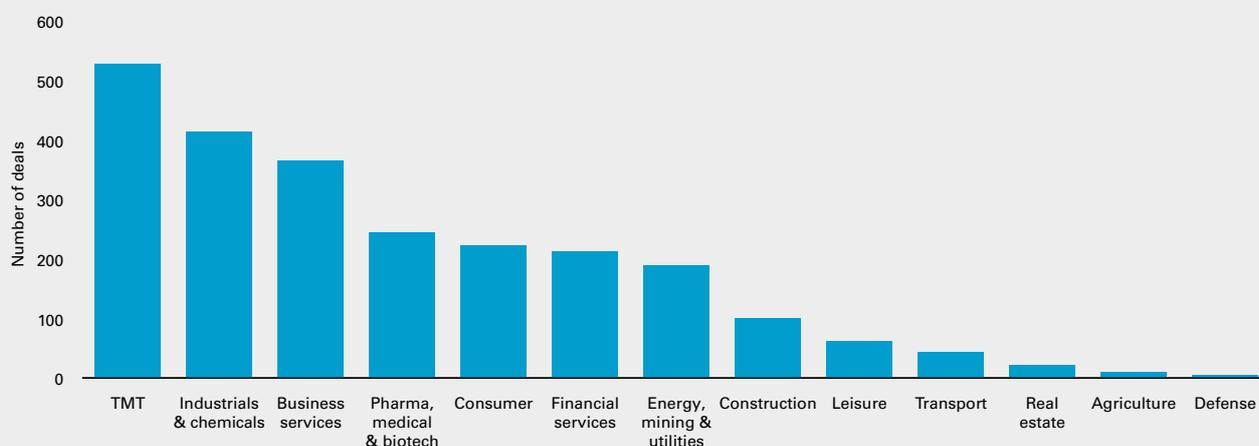
Activity in the consumer sector has been boosted by a number of big-ticket transactions in the dining and food subsectors, with notable transactions including Reckitt Benckiser's US\$17.8 billion purchase of baby formula producer Mead Johnson & Company in February, JAB Holdings' US\$7.4 billion acquisition of bakery chain Panera Bread Company in April and Tyson Foods' US\$4.1 billion acquisition of packaged sandwich supplier AdvancePierre Foods, also announced in April.

The highest-valued US deal across all sectors was British American Tobacco's US\$60.7 billion acquisition of a majority stake in tobacco manufacturer Reynolds American.

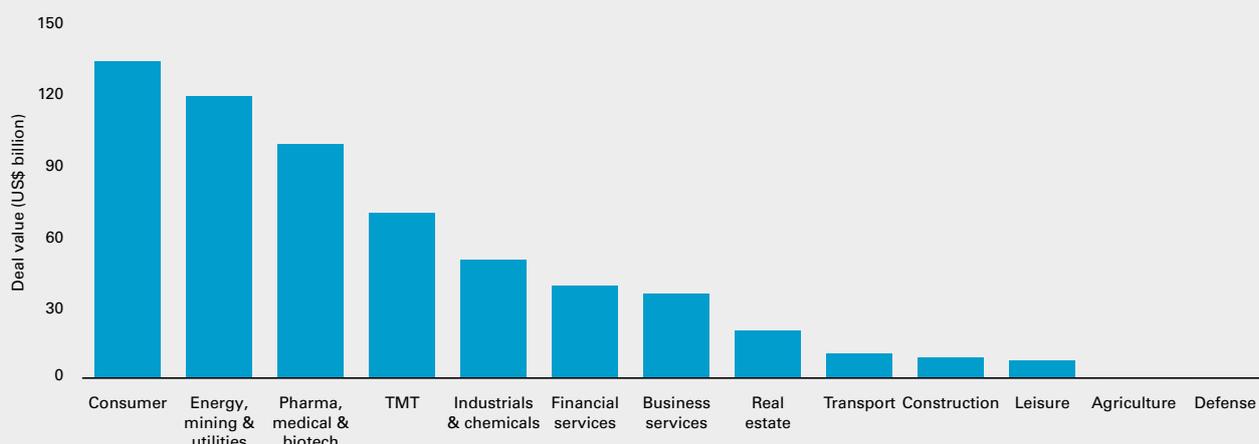
In all of these deals, acquirers used M&A to consolidate in a competitive sector and break into new markets in order to find growth.



Top sectors H1 2017, by volume



Top sectors H1 2017, by value (US\$ billion)



Tech dominates volume

The technology, media and telecommunications sector delivered the most deals in H1 2017 (527), but only generated deal value of US\$69.4 billion during the period—a 26 percent drop from the US\$94 billion seen in H1 2016. Despite the fall in value, technology is now a major driver of deals across all sectors, as convergence between tech and non-tech sectors deepens—indeed, it is becoming difficult to categorize what is and what isn't a technology deal. Amazon's recent takeover of Whole Foods characterizes this

trend of a tech firm entering previously uncharted territory to drive growth.

"As sectors converge, non-tech companies realize that they will lose customers to tech companies encroaching on their space if they fail to stay abreast of technology-based opportunities," says White & Case partner Bill Choe. "The best way for acquiring companies to integrate technology companies is to treat technology as a way of life, not as a separate "digital division" of the company."



As sectors converge, non-tech companies realize that they will lose customers to tech companies encroaching on their space if they fail to stay abreast of technology-based opportunities.

Bill Choe, Partner, White & Case



Retail firms embrace digitalization

Competition from online retailers pushes traditional firms to acquire disruptive market entrants

The consumer sector was the winner in terms of deal value in H1 2017, with the retail sub-sector providing a constant flow of deals. The industry is in a state of flux as brick-and-mortar retailers buy faster-growing online rivals, as in PetSmart's purchase of e-commerce rival Chewy.com for US\$3.4 billion. At the same time, technology companies have looked to enter the market, complementing their online offerings with physical stores: Amazon's US\$13.5 billion acquisition of Whole Foods is a prime example.

Hyper-digitalization: The next frontier

A recent study by the National Retail Federation forecasts that in 2017 online retail will grow by between 8 and 12 percent, more than double the growth of traditional retailers. This shift by consumers to internet shopping has been the primary rationale for deals such as Unilever's US\$1 billion purchase of online razor blade vendor Dollar Shave Club and Walmart's US\$3.3 billion acquisition of online store Jet.com.

Technology is a key driver behind this surge in retail deals. "There are a lot of larger, older companies with fixed sites that don't look as good as they looked a few years ago," says White & Case partner Morton Pierce. "That will generate consolidation as well as acquisitions involving disruptive new entrants."

And according to White & Case partner Bill Choe, the disruption from tech firms is only just beginning. "The consumer retail sector is set



US
\$132.9
billion

The value of
222 deals targeting
the US consumer
sector in H1 2017



53%

Percentage increase
in Consumer M&A
value compared to
the whole of 2016

to continue on its path to hyper-digitalization—think hyper-local geo-targeting for advertising and product placement, and ubiquitous use of Big Data analytics for personalized marketing," Choe says.

Physical stores hold their value

Amazon's US\$13.5 billion purchase of grocer Whole Foods, however, suggests that there still is value in physical stores. The deal shows the importance of physical stores for large retailers looking at ways to integrate online and in-store consumer experiences, rather than viewing the two as separate sales channels.

"Prices for physical retailers will look attractive," says Pierce, "and there will be private equity firms who take the view that they can buy these assets at attractive prices, maintain cash flow and control expenses."



The consumer retail sector is set to continue on its path to hyper-digitalization—think hyper-local geo-targeting for advertising and product placement, and ubiquitous use of Big Data analytics for personalized marketing.

Bill Choe, Partner, White & Case

Top consumer deals H1 2017

1

British American Tobacco Plc bought Reynolds American Inc. (57.83 percent stake) for **US\$60.7 billion**

2

Reckitt Benckiser Group Plc bought Mead Johnson & Company for **US\$17.1 billion**

3

Amazon.com, Inc. agreed to buy Whole Foods Market, Inc. for **US\$13.5 billion**



Oil & gas M&A stages cautious comeback

While oil prices continue to fluctuate, a pro-oil administration and midstream activity mean that M&A is gaining momentum. But high-profile restructurings suggest firms are still feeling the effect of a tough few years

Oil & gas deal M&A activity is stabilizing somewhat in 2017. Deal value increased by 84.5 percent from US\$51.6 billion in H1 2016 to US\$95.2 billion in H1 2017, highlighting a returning confidence in the market.

A recovering oil price, which has rebounded from lows of around US\$30 a barrel a year ago to US\$40 and above in 2017, along with the arrival of a pro-oil administration in the White House, has supported a cautious rebound in the M&A market.

Midstream, Permian and PE

The midstream sector especially—processing, transportation and storage companies—has outstripped other subsectors of the industry. Elevated transaction levels in the midstream sector reflect moves to achieve greater scale, to capture geographical trends and maximize positions in the right basins.

In particular, the Permian basin in West Texas has seen a flurry of deals as companies vie for influence in the oil-rich area, which boasts some of the lowest drilling costs in the country.

A mixed picture

Although deal figures are positive, there are signs the sector hasn't fully recovered. The two largest deals of the quarter, ONEOK Inc.'s US\$17.2 billion acquisition of a 60 percent stake in ONEOK Partners and Williams Companies' purchase of a 32 percent stake in



86%

Percentage increase in deal value compared to H1 2016



US \$95.2 billion

The value of 122 deals targeting the US oil & gas sector in H1 2017

Williams Partners for US\$11.4 billion, were essentially ownership model restructurings.

"A lot of the deals are not driven by factors that normally spark M&A, like fundamental growth and expansion," says White & Case partner Gregory Pryor.

The Trump effect

The presidency's strong support for oil and gas has boosted dealmaker confidence. "There is without a doubt confidence and optimism in the industry," Pryor says. "The oil price has stabilized, the Permian basin is busy and there is going to be less regulation."

But without a sustained increase in oil price, producers in the US have little incentive to ramp up output, reducing the need for greater capacity. And despite President Trump's change of approach, the regulatory question looms large: Operators know that plans for new infrastructure will be potentially delayed by time-consuming legal action from environmental campaigners.

Top oil & gas deals H1 2017

1

ONEOK, Inc. bought ONEOK Partners, L.P. (60 percent stake) for **US\$17.1 billion**

2

Williams Companies, Inc. bought Williams Partners L.P. (32.24 percent stake) for **US\$11.4 billion**

3

EQT Corporation agreed to buy Rice Energy, Inc. for **US\$7.7 billion**



Power M&A loses its spark

A slew of blocked deals has generated a hesitant environment for deals within the utilities space, while the renewables sector offers an attractive alternative

The power sector is in a state of flux. While traditional firms are under increasing pressure from regulators, renewable energy sources are catching dealmakers' attention. In H1 2017, there were 45 deals worth US\$12.5 billion targeting the US power sector—a decrease in both volume and value compared to the 58 deals worth US\$22.3 billion recorded in the first half of 2016—as dealmakers struggle to secure growth in an unpredictable market.

A shift to renewables

As the onshore wind and solar sectors mature and become more competitive on price in relation to fossil fuel energy, the renewables sector is emerging as an attractive alternative for dealmakers. This shift within the market can be seen in Canadian Brookfield Asset Management's acquisition of a 39 percent stake in clean power firm TerraForm for US\$4.3 billion in March, while the AES Corporation purchased Sustainable Power Group for US\$1.6 billion in February.

However, the outlook for the sector remains uncertain. President Trump's aim to unwind the clean power policies of his predecessor, as well as his recent controversial withdrawal from the Paris climate agreement, may result in a switch back to government investment in fossil fuel companies.

Regulators switch off deals

Deal activity among traditional power firms has been hit hard,


**US
\$12.5
billion**
The value of
45 deals targeting
the US power sector
in H1 2017


44%
Decrease in value
compared to
H1 2016

as regulators place increased scrutiny on transactions. In April, the Kansas Corporation Commission (KCC) blocked the US\$12.2 billion acquisition of utility firm Westar Energy by Missouri-based Great Plains Energy, one of the largest power deals announced in 2016. The regulator said the parties had not taken sufficient steps to introduce the safeguards needed to protect consumers post-merger. The Public Utility Commission of Texas, meanwhile, blocked NextEra Energy's US\$18.4 billion bid for Oncor Electric Delivery. The deal was rejected on the grounds that it removed ring-fencing measures set up to protect Oncor's credit rating.

NextEra's US\$2.6 billion bid for Hawaiian Electric Industries was also halted by regulators when the Hawaii Public Utilities Commission ruled that the parties had failed to demonstrate that the deal was in the public interest.

How regulators react to such large-scale deals will be crucial in determining the direction of M&A within the sector. With the increased competition from clean power firms, dealmaking within the sector is transitioning into new territory.

Top power deals H1 2017

1

Brookfield Asset Management Inc. agreed to buy TerraForm Power, Inc. (38.84 percent stake) for **US\$4.2 billion**

2

The AES Corporation agreed to buy Sustainable Power Group, LLC for **US\$1.6 billion**

3

Brookfield Asset Management Inc. agreed to buy TerraForm Global, Inc. for **US\$1.2 billion**



Fintech forces the fate of US financials

Banks and insurers turn to M&A, as technology transforms how financial services are purchased and used

The financial services sector recorded 212 deals worth US\$38.6 billion in H1 2017, a 42.4 percent uptick in value compared to the same period in 2016.

The insurance and asset management sub-sectors were especially active, with notable deals including KKR's purchase of insurance broker USI Holdings for US\$4.3 billion and Japan's SoftBank buying investment manager Fortress Investment Group for US\$3.3 billion.

Banking goes mobile

Digitalization has been a major contributor to M&A in the sector. Established corporations with large branch and sales networks have been challenged, as technology changes the way people use their products. JPMorgan Chase, Bank of America and Wells Fargo, for example, are all reporting double-digit annual growth rates in the take-up of mobile banking services.

"As consumers become more agile with smart devices, and therefore more trusting of devices and more dependent upon them, it is a necessity for every company that interacts directly with the customer to digitize—regardless of industry," says White & Case partner Arlene Hahn.

For finance groups, which have significant investments in legacy infrastructure and are tightly regulated, M&A has been a valuable tool for exploring the market, bringing in new technologies and re-engaging with customers.

In March, for example, JPMorgan Chase acquired the payments



US
\$38.6
billion

The value of
212 deals targeting
US financial services
in H1 2017



42%

Percentage increase
in deal value
compared to H1 2016

technology of Merchant Customer Exchange (MCX), enabling its own digital wallet, Chase Pay, to include more merchants and attract new users by providing discounts and special offers.

Blockchain and beyond

As the application of technology to financial services develops, M&A will remain at the heart of how banks and insurers react to a changing market. Blockchain and artificial intelligence, for example, are still new developments, but will undoubtedly have a significant impact on financial services in the future.

According to boutique investment bank Architect Partners, 83 percent of blockchain deals occur between companies both involved in early-stage development. But the technology is gaining traction, with Airbnb buying ChangeCoin, a blockchain technology that enables micro-payments over social media, and Rakuten buying Bitnet Technologies, a developer of an e-commerce platform that accepts bitcoin payments.

Top financial services deals H1 2017

1

Kohlberg Kravis Roberts & Co. L.P.; Caisse de Dépôt et Placement du Québec bought USI Holdings Corporation for **US\$4.3 billion**

2

SoftBank Group Corp. agreed to buy Fortress Investment Group LLC for **US\$3.3 billion**

3

First Horizon National Corporation agreed to buy Capital Bank Financial Corp. for **US\$2.2 billion**



Drive for connectivity fuels manufacturing and industrials M&A

Convergence between sectors generates deals, while some dealmakers adopt a wait-and-see approach in response to Trump's policies

The US manufacturing sector saw US\$8 billion spent across 76 deals in H1, representing a 21.2 percent uptick in value compared to the first half of 2016. Activity targeting the industrials sector, on the other hand, saw deal value slump 62 percent compared to H1 2016, with 235 deals worth US\$20 billion.

The largest manufacturing and industrials (M&I) deal in H1 saw Caisse de Depot and Suez acquire GE Water & Process Technologies for US\$3.4 billion. Private equity firms have been active players too, buying non-core assets off M&I companies or backing groups in exciting niches, as in H.I.G. Capital's US\$230 million acquisition of cinema seats maker VIP Cinema Seating.

Convergence drives deals

But dealmaking between manufacturing and technology companies has been the primary driver of M&A within the sector, as traditional M&I companies move to take advantage of new technological applications for their products.

Intel Corporation's US\$15 billion acquisition of Israeli advanced driver assistance system developer Mobileye, for example, places the technology group firmly in the automotive manufacturing market. The deal demonstrates how established M&I and technology companies are seizing opportunities to expand into new markets and sectors.

"Convergence has been especially pronounced during the last couple years, and we think it's going to



21%

Percentage increase in US Manufacturing M&A value compared to H1 2016



62%

Percentage decrease in US Industrial M&A value compared to H1 2016

continue to increase and drive M&A," says White & Case partner Michael Deyong. "Manufacturers and technology companies are looking at how they can connect as many devices as possible in as many places as possible. That is not going to change anytime soon."

Dealmakers weigh Trump's plans

As is the case in other sectors, however, uncertainty around the policy direction of the current American presidential administration has given some dealmakers pause. In some respects, President Trump's intention to bring more manufacturing back into the US could provide a boost for the industry, but fears that a more protectionist stance could hinder export opportunities counter-balance the potential upside.

"Shielding manufacturing should have positive effects for mid-sized manufacturers," Deyong predicts, "but most large groups operate globally, and they could suffer if protectionist measures are introduced."

Top manufacturing & industrials deals H1 2017

1

Caisse de Dépôt et Placement du Quebec; Suez agreed to buy GE Water & Process Technologies for **US\$3.4 billion**

2

Bain Capital agreed to buy New Diversey for **US\$3.2 billion**

3

WestRock Company bought Multi Packaging Solutions, Inc. for **US\$2.2 billion**



Healthcare deals flourish, but uncertainty looms large

Megadeals fuel pharma activity, while healthcare dealmakers face antitrust hurdles

Dealmaking in the pharmaceuticals and healthcare sector saw a rebound in H1 2017, with deal value increasing 51.8 percent compared to the preceding half-year. The sector delivered 244 deals worth US\$98.2 billion during the period, making it the third-largest industry by deal value and fourth-largest by deal volume.

The largest healthcare deal of the period—medical supplies company Becton, Dickinson and Company's US\$23.6 billion purchase of rival C.R. Bard—was driven by the increasing pressure placed on healthcare suppliers to consolidate, reduce prices and create larger product portfolios to sell to hospitals and doctors.

Consolidation continues

Pharma deals, however, have driven most of the activity in the sector, with mega transactions such as Fresenius Kabi's US\$4.8 billion takeover of Akorn and Abu Dhabi Investment Authority's and GIC's US\$9 billion acquisition of Pharmaceutical Product Development lifting overall value figures.

Pharma companies are increasingly using M&A as part of their R&D strategy. This strategy paid off for Takeda Pharmaceuticals, when two months after Takeda acquired Boston biotech firm Ariad for US\$4.8 billion, the FDA approved Ariad's lung cancer drug Alunbrig.

"The pharmaceuticals industry has been consolidating for some time now, and I don't see why that should change," says White & Case partner



US
\$98
billion

The third most targeted sector by deal value in H1 2017



52%

Percentage increase in deal value targeting the sector compared to H2 2016

Morton Pierce. "Pharma companies need M&A to replenish their pipelines, and there are still some big targets out there."

Antitrust hampers healthcare deals

While pharma M&A surges ahead, general healthcare M&A has slowed following the scuttling of major transactions by antitrust actions in 2016. In the health insurance sub-sector, the US\$36.3 billion merger between Aetna and Humana and the US\$50.4 billion tie-up between Anthem and Cigna both failed to complete after the US Department of Justice intervened on competition grounds.

There is also uncertainty around changes to healthcare legislation under the Trump administration. Trump's original healthcare reform package failed to get through Congress, and legislators are now working on a new Obamacare repeal deal that could see individual states take responsibility for deciding what services insurers must cover.

"The regulatory landscape is unsettled, and companies are waiting to see what happens to Obamacare," Pierce says. "There is legislation pending, but I think people are waiting to see what changes will get enacted and what effect those changes will have on their businesses."

Top pharma & healthcare deals H1 2017

1

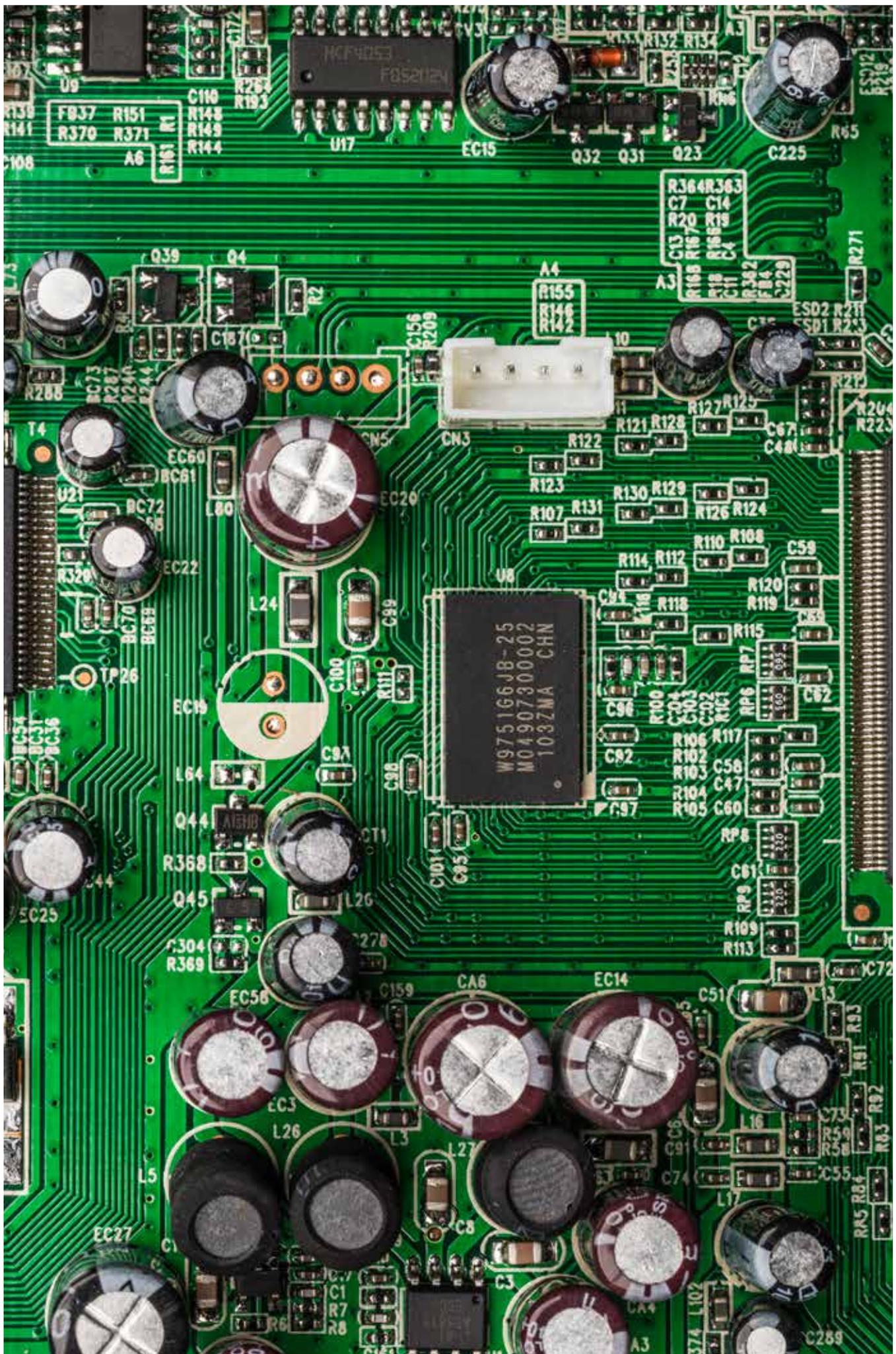
Becton, Dickinson and Company agreed to buy C.R. Bard, Inc. for **US\$23.6 billion**

2

Abu Dhabi Investment Authority; GIC Private Limited agreed to buy Pharmaceutical Product Development, LLC for **US\$9.1 billion**

3

Mars, Incorporated agreed to buy VCA Inc. for **US\$8.8 billion**



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R20 R19
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R168 R165
R118 R166
C11 C4
R362
FB4
2229

A4
R155
R146
R142

F837 R151
R370 R371
A6
R161 R1

C110
R148
R149
R144

ESD2 R21
ESD1 R23

U8
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R103 C47
R104 C40
R105 C60

R368
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R304
R369

R59
R58
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Cross-sector deals drive technology M&A

Tech firms transcend sector boundaries in their race to innovate, while Trump's immigration policy casts a cloud of uncertainty over the industry

The first half of 2017 brought 441 deals worth US\$41.3 billion targeting US technology firms. Compared with H1 2016 activity, value in tech-sector M&A is down 40.2 percent from US\$69.1 billion, and volume is down from 463.

The drop in headline figures, however, does not reflect how technology has become one of the most important drivers of M&A across all sectors. Of the 10 largest technology deals in H1 2017, only four are traditional tech M&A transactions between two industry incumbents. The other six transactions involve at least one party from a non-tech industry.

Breaking boundaries

Online retailer Amazon, for example, has shaken up the consumer sector with its purchase of brick-and-mortar grocer Whole Foods for US\$13.5 billion, breaking down preconceptions of where the distinctions between physical retail and technology lie. Driverless car technology, meanwhile, has opened the door for pure technology companies to compete against established automotive manufacturers, as demonstrated by Intel Corporation's US\$15 billion acquisition of Israeli driver assistance system developer Mobileye.

"The conversation has expanded beyond just pure tech," says White & Case partner Arlene Hahn. "As more devices become smart, products become connected, and more processes become automated, non-tech companies

will need to invest in tech not to disrupt an industry, but just to remain competitive."

The H1-B lottery

But although cross-sector convergence means the tech industry is positioned to continue generating strong dealflow, there are major concerns about the consequences for the industry if the Trump administration clamps down on immigration into the US.

The H1-B visa program, which allows companies to bring into the US a fixed number of workers in specialty occupations each year, has been an important source of talent for technology companies. Many are worried this flow of human capital may soon be cut off.

Poonam Gupta, White & Case Director of Immigration Services, says technology companies are looking at other ways of using talent in and out of the US in case the H1-B rules change: "Technology companies that use the H1-B category are concerned about changing H1-B rules. Many are taking steps such as hiring more US citizens, hiring people overseas who can be transferred to the US for short or long periods of time, and increasing their use of collaboration tools such as videoconferencing technology to ensure continuity of project management."

Top TMT deals H1 2017

1

Sinclair Broadcast Group, Inc. agreed to buy Tribune Media Company for **US\$6.6 billion**

2

Apollo Global Management, LLC agreed to buy West Corporation for **US\$4 billion**

3

Cisco Systems Inc. bought AppDynamics, Inc. for **US\$3.7 billion**



Non-tech companies will need to invest in tech not to disrupt an industry, but just to remain competitive.

Arlene Hahn, Partner, White & Case

Private equity adapts in a seller's market

Buyout firms are exploring new ways to deploy dry powder

US private equity (PE) deal activity recorded a strong first half of 2017 against a mixed M&A backdrop. PE equity buyout value reached US\$99.1 billion, up 24.5 percent from the previous US\$79.6 billion record achieved in the first six months of 2016. Exit value was up from US\$109.8 billion in H1 2016 to US\$123.6 billion in H1 2017.

The industry has continued to close both big-ticket buyouts and exits. The Carlyle Group and Hellman & Friedman sold Pharmaceutical Product Development to sovereign wealth funds GIC and ADIA for US\$9 billion in the largest exit of the year so far. JAB Holdings has made the biggest buyout to date, acquiring Panera Bread Company for US\$74 billion from BDT Capital Partners.



**US
\$99.1
billion**

The value of 497 buyouts deals targeting the US in H1 2017

24.5%

Increase in buyout value compared to the previous record held in H1 2016

"The simple fact is that if sponsors don't do deals, they fade away," says White & Case partner Oliver Brahmst. "They are continuously hunting for transactions, and they are very inventive about finding opportunities."

New York-based American Industrial Partners, for example, carried out a cross-border delisting of Canadian family-controlled manufacturer Canam. These kinds of complex deals show how firms are looking at deals from different angles in order to deploy their cash.

Buying in a seller's market

While deal figures have held steady, PE firms are under pressure to deploy capital in a market that has favored sellers in recent years. According to research group Preqin, buyout firms have a record

US\$842 billion of dry powder to deploy, yet exit value was a quarter higher than buyout value in the first six months of 2017.

"Funds continue to pay higher and higher multiples of EBITDA as purchase price," says White & Case partner Carolyn Vardi. "There is an obvious tension between sellers exerting their power in the market and PE buyers executing on deploying capital, but doing so responsibly."

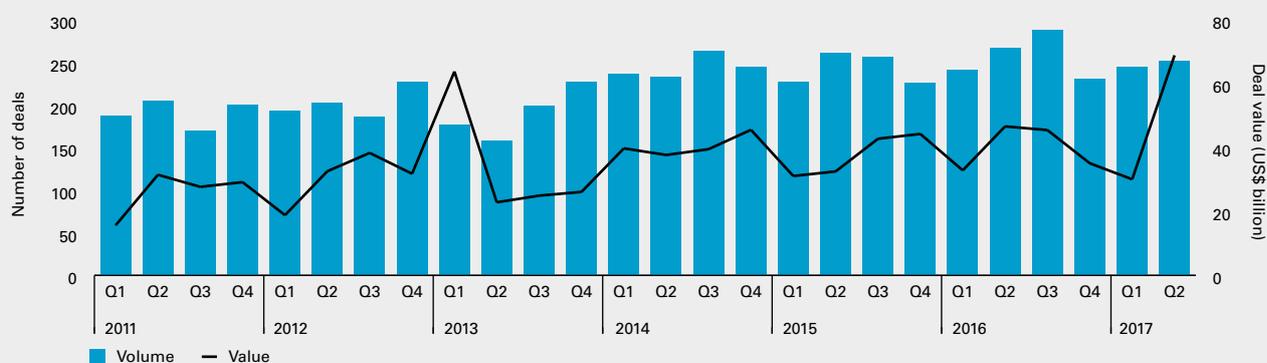
Changing tactics

In response, firms are working harder to gain an edge and find new ways to put money to work, with PE firms investing through different structures in order to access more dealflow. Firms are no longer wedded to doing control investments, and will take minority

Private equity exits 2011 – H1 2017



Private equity buyouts 2011 – H1 2017



stakes, hold assets for longer or offer larger amounts of co-investment opportunities to their investors.

“It is not just about control investments in US companies,” Brahmst explains. “It could be minority investments in Latin American companies. It could be minority investments in large, family-owned US companies. It could be debt investments. It could be deals with longer hold periods. Successful firms are always looking around the corner and finding ways to put money to work.”

Highlighting this trend, The Carlyle Group, Blackstone and CVC Capital Partners have all raised long-dated private equity vehicles, which have fund lives of 15 years and beyond as opposed to the standard 10-year terms.

According to Brahmst, buy-and-build strategies have also become particularly widespread in the asset class, which means that deal figures may not reveal the true level of PE activity. “Nobody should discount the fact that firms are making acquisitions through portfolio companies so they can in fact act like strategic players,” he says. Audax, for example, more than quadrupled the revenues of Florida- and Ohio-focused portfolio company Advanced Dermatology & Cosmetic Surgery to more than US\$200 million after building the business into a national platform through 40 add-on acquisitions.

Staying ahead

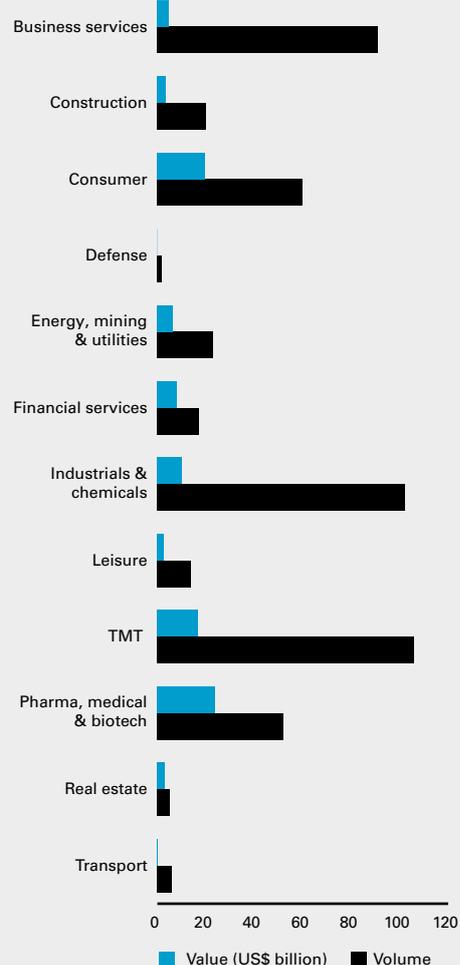
Competition from strategic bidders is still ever-present, with the most recent analysis from Moody’s estimating that non-financial companies in the US are sitting on cash holdings of US\$1.7 trillion. Vardi says this has pushed firms to leverage relationships before ever reaching the auction stage.

“Attempts to pre-empt an auction process are almost a standard tactic now, and firms are trying to avoid auctions by leveraging relationships with management teams and sellers to try and get a look at a company before it’s put up for sale,” Vardi says.

Where PE funds do have the upper hand over corporations is their likelihood to accept seller-favorable terms. “While corporates may have a balance sheet to back up their objectives and more synergistic advantages, I’ve seen them trip up over some of the terms that the sellers are demanding,” Vardi says.

According to Brahmst, it is the ability to remain agile that can help PE firms stay ahead. “They can solve problems quicker or risk-assess problems to make decisions quicker. Sometimes, that gets them to the finish line faster than a corporate,” Brahmst says.

Buyouts by sector 2011 – H1 2017



An aerial photograph of a city skyline at sunset. The sky is a mix of blue, orange, and pink. The buildings are illuminated by the low sun, creating a warm glow. The skyline is dominated by several tall skyscrapers, including a prominent one with a unique, angular, dark facade. The foreground shows a dense urban area with various buildings, including a large, ornate, red-brick building with a clock tower. A solid blue horizontal bar is at the top of the page.

Tech, Trump and tackling the unknown: Key trends for the months ahead

Dealmakers' ability to adapt to market changes and tackle external challenges will prove crucial to getting deals done



The first six months of 2017 have proven extremely solid, with a string of consumer megadeals and tech convergence plays boosting the US market. On the other hand, a drop in investment from China and uncertainty around the Trump administration's ability to implement its pro-business agenda will pose challenges to dealmaking. Despite that uncertainty, the H1 2017 results say deals based on sound strategic fundamentals will continue to get done.

The following factors will likely characterize US M&A for the rest of this year, and into 2018:

Tech crossing boundaries

Technology has transformed the way businesses operate and engage with their customers, in turn blurring distinctions between sectors. As companies move to keep pace with technological change, creative deals struck between "tech" and "non-tech" companies will become commonplace.

And convergence will begin to impact sectors that have previously been slow to change. After autotech, fintech and healthtech, the next section of the market to be disrupted could well be professional services, as blockchain and AI move from the fringes to the mainstream.

Treat Trump as a bonus

President Trump's plans to spend on infrastructure, cut taxes and regulation, and reduce the taxation of cash repatriated to the US are expected to provide M&A activity with a material boost. Difficulties with passing certain reforms through Congress, however, have cast doubts over the administration's ability to implement its agenda.

In time, Trump's reforms may well come into force and benefit dealmaking, but in order to succeed until then, transactions will need to have deal rationales that stand up irrespective of any potential upsides from Trump's legislation changes.

Inbound M&A continues

The Trump administration's "America First" focus and a sharp fall in inbound M&A from China in H1 2017 have raised concerns that overall inbound M&A activity will shrink in the years ahead. But overseas interest in US deals has held up well against these challenges, and is likely to remain an attractive jurisdiction for foreign buyers.

The consumer sector, particularly online and offline retail, could continue to be a popular choice for strategics and private equity alike. Meanwhile, as many large corporations continue cutting back to their core competencies, divestments are likely to pick up and drive the market forward.

Tackling the unknown

As the threat of cybercrime evolves and becomes more complex, the c-suite will be forced to adopt a more sophisticated and tailored approach during the due diligence process.

That approach must look beyond contract protections to a full review of a target's technology infrastructure, how the target shares data with third parties and the risk of exposure to a cyberattack through the target. This may well extend the deal process and, in certain extreme cases, may cause some deals to fail. However, the cyber stakes are now so high, companies cannot afford to be anything less than 100 percent thorough.

Despite uncertainties and challenges, there remains plenty of reason for dealmakers to be optimistic in 2017 and beyond.

President Trump's proposed plans may soon come into fruition and give a boost to US dealmaking. Strong fundamentals such as an abundance of cash, a strong stock market and stable economic growth paint a positive picture for an active second half of 2017.

Global

John M. Reiss

Partner, New York

T +1 212 819 8247

E jreiss@whitecase.com

Americas

Gregory Pryor

Partner, New York

T +1 212 819 8389

E gpryor@whitecase.com

EMEA

Dr. Jörg Kraffel

Partner, Berlin

T +49 30 880911 400

E jkraffel@whitecase.com

Allan Taylor

Partner, London

T +44 20 7532 2126

+44 20 7532 1000

E ataylor@whitecase.com

John Cunningham

Partner, London

T +44 20 7532 2199

+44 20 7532 1000

E johncunningham@whitecase.com

Alexandre Ippolito

Partner, Paris

T +33 1 55 04 15 68

+33 1 55 04 15 15

E aippolito@whitecase.com

Asia-Pacific

Christopher Kelly

Partner, Hong Kong

T +852 2822 8740

E christopher.kelly@whitecase.com

Barry Wall

Partner, Singapore

T +65 6347 1388

E bwall@whitecase.com



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For more information, please contact:

Simon Elliott

Publisher, Remark, an Acuris company

Tel: +44 20 3741 1060

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