



M&A Update

2018 U.S. Annual Review

Notable Trends in 2018

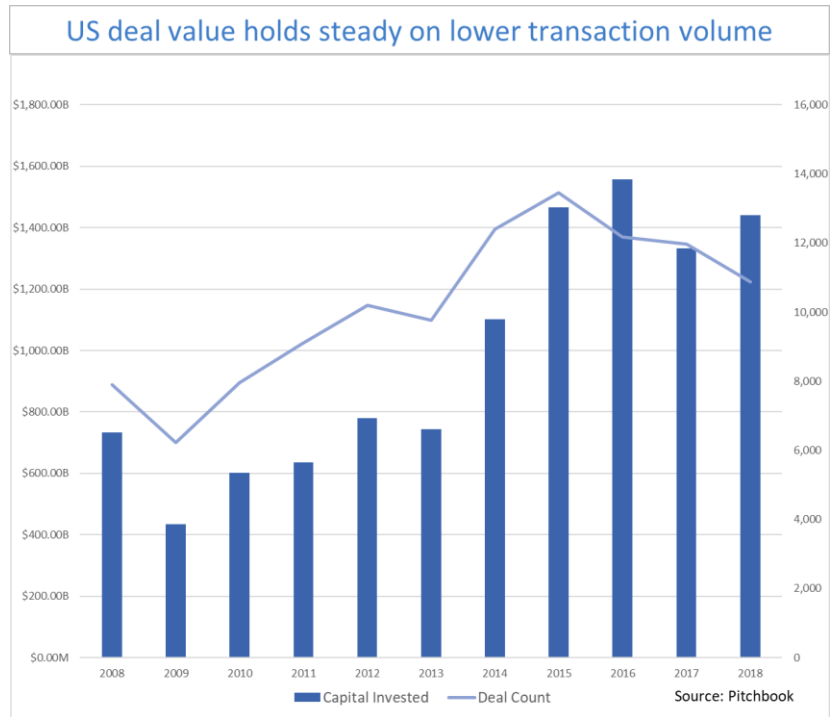
United States M&A investment remains high despite declining deal count.

In 2018, a large number of mega-deals closed with 53 deals closing at over \$5 billion dollars. Although deal count dropped 9.6% compared to 2017, total capital invested to M&A was over \$1.44 trillion, an 8% increase. Median deal size was the highest recorded at \$65.5 million.

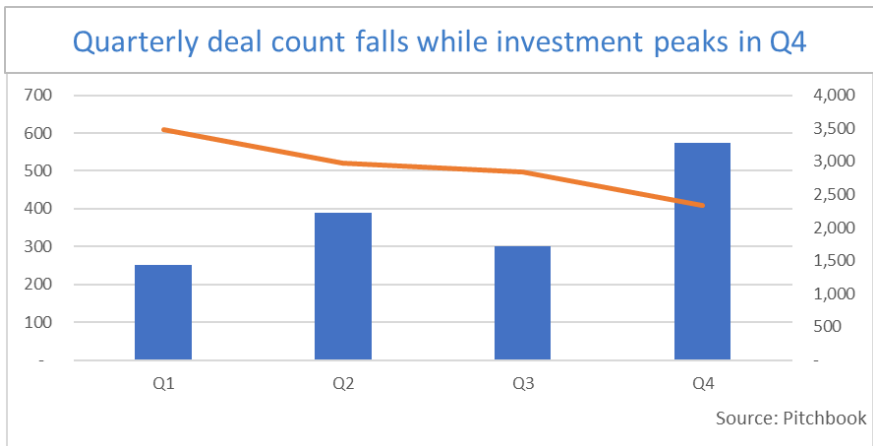
Private Equity continues decade-long climb. Private Equity (PE) activity remained strong in 2018 extending a 10-year trend of increased deal volume. Buyouts accounted for more than half of all transactions for the second consecutive year including several large transactions. Buyout deals accounted 54.7% of transaction volume in 2018 up from 32.4% in 2009.

Valuation multiples remain high, despite falling in consecutive years. M&A activity remains strong despite valuation multiples declining from 2016 historic highs of 10.53x. Valuation multiples of 9.89x reflect high competition and affordable financing for buyers.

In 2018, U.S. M&A activity trended higher in terms of deal size largely due to a few large strategic acquisitions. Four deals closed at over \$50 billion for the year including Bayer’s \$63 billion acquisition of Monsanto and AT&T’s \$85 billion purchase of Warner Media. In the highly competitive healthcare sector, Cigna acquired Express Scripts for \$52 billion and CVS Health acquired Aetna for \$70 billion. These deals and others accounted for a median deal size of \$65.6 million. Alternatively, for the third consecutive year, deal count moved lower to 10,824 from 11,971 in 2017. The combination of lower deal count and higher deal size kept total capital raised in line with the last four years at \$1.44 trillion.

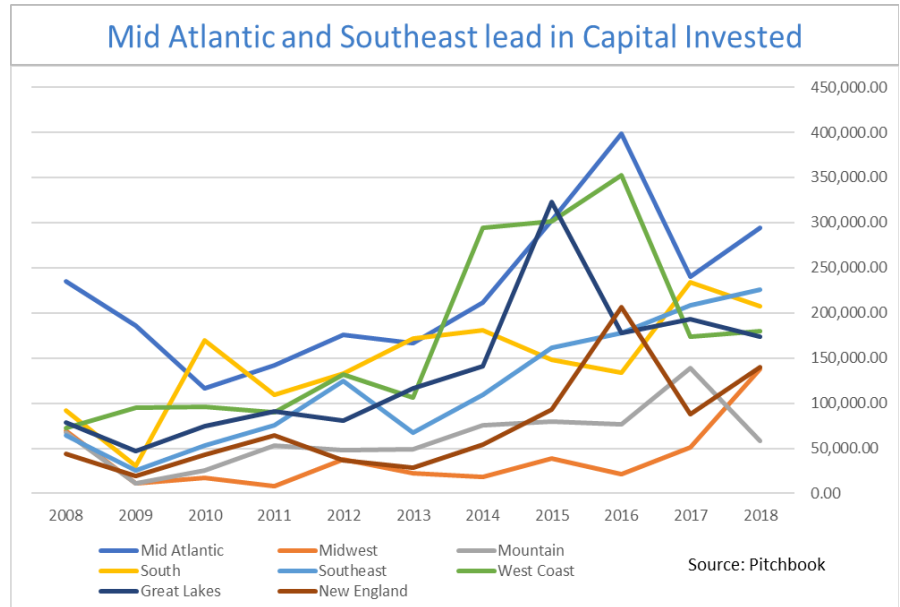


Deal count trended downward gradually throughout the year with 3,321 (Q1) compared to 2,102 (Q4). However, fourth quarter recorded the highest median deal size and capital invested as many large acquisitions closed in the final months of the year including the Aetna, Express Scripts deals and Red Hat for \$70 BN, \$52 BN and \$36, respectively.

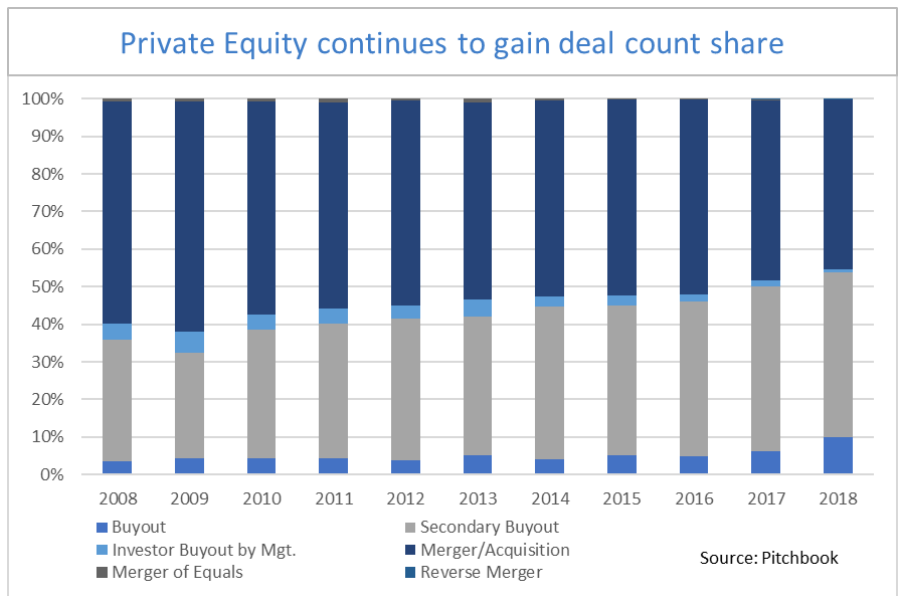


Private Equity has accounted for a growing percentage of total deals over the last 10 years with 2018 being no exception. In 2018, PE accounted for 54.7% of deals in the U.S. while the remaining 45.3% were strategic. In 2009, PE buyouts made-up 32.4% of deal count. Surging asset bases for PE and VC firms have allowed for more deals which is expected to continue. Although PE led the way in deal count, strategic mergers and acquisitions still accounted for the majority of deal size and capital invested. The number of mega-deals by strategic buyers exceeded those backed by PE in 2018.

Private equity participants accounted for 44.8% of capital invested while 55.2% were strategic deals. The most notable buyouts of the year included Keurig’s acquisition of Dr. Pepper Snapple Group and Blackstone’s \$17 billion buyout of Thomson Reuter’s financial and risk division, Refinitiv.



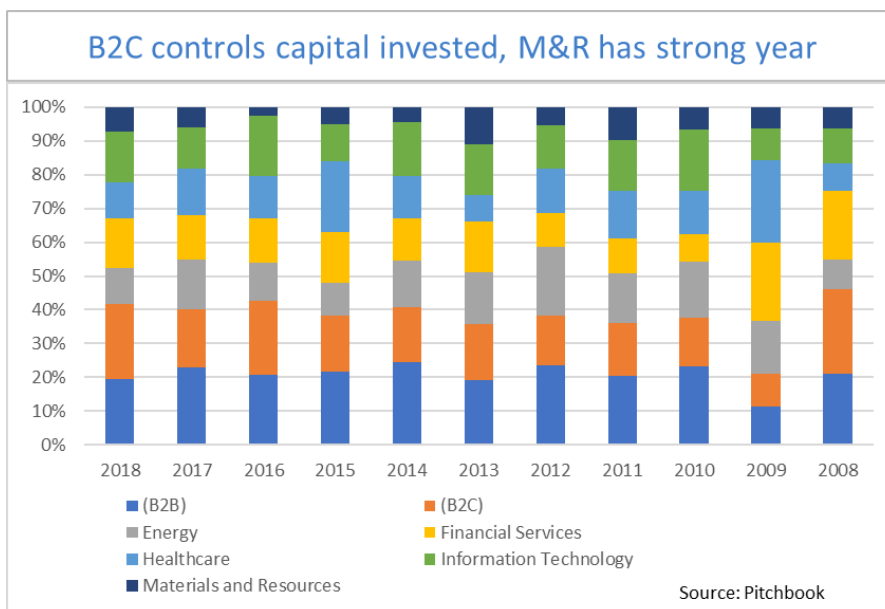
Generally, deal count by region remained consistent with trends over the last 10 years. West Coast deal count was highest at 2,182 while the Mid Atlantic, Southeast, and Great Lakes regions recorded more than 1,500 deals each. The Mid Atlantic led the way in capital invested with \$295 billion while the Southeast recorded \$225 billion. The \$85 billion Warner Media deal contributed significantly to the Mid Atlantic total. IBM’s Red Hat acquisition and United Technologies’ \$23 billion purchase of Rockwell Collins helped the southeast.



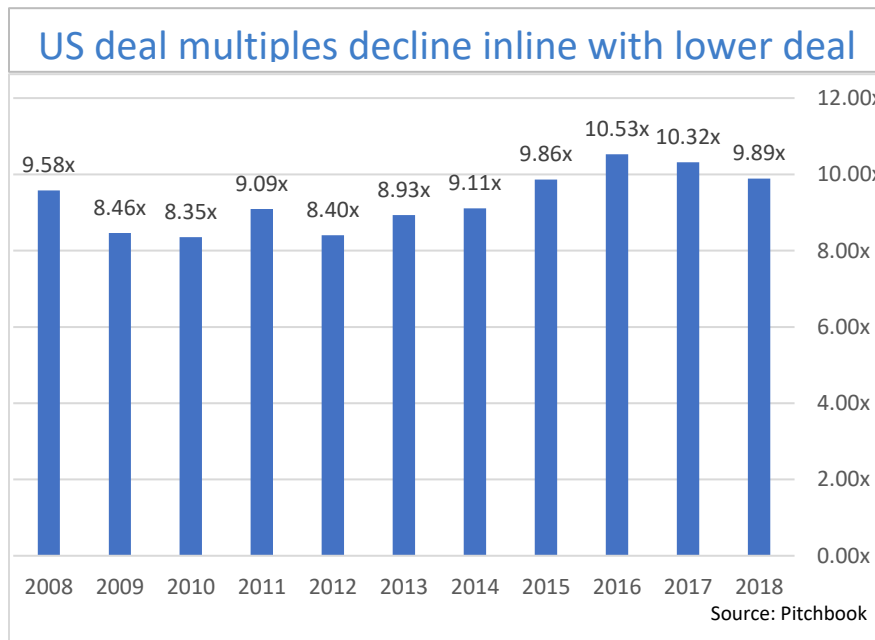
The South region came in at 3rd (\$207 billion) despite low deal count. In the South region, capital invested was driven by Marathon’s \$23.3 billion purchase of Andeavor Oil, \$21 billion Dr Pepper Snapple Group deal, and two oil/energy acquisitions over \$10 billion each by BP.

Investment by sector was relatively balanced in 2018, B2B accounted for more than 16% of total investment. Due to 53 deals being over a billion, B2C led the way in total investment at 20% with \$295 billion in capital invested. B2C deal count ranked third at 1,618. Most of the multi-billion-dollar B2C transactions were performed in food products and services including large acquisitions by Keurig, Conagra, General Mills, Nestle, Tyson and Arby's. Although it led the way in deal count at 4,137, B2B had declined with \$210

billion invested compared to \$290 billion in 2016 and \$263 billion in 2017. Information Technology continued to be active with \$228 billion invested in 1,997 deals. Materials and Resources made up over 7% of activity with \$104 billion invested, up from \$51 billion in 2017 and \$28 billion in 2016. Bayer's Monsanto acquisition was responsible for more than half of that total.



While U.S. valuation multiples fell in 2018, they remain high relative to historic levels. Valuation/EBITDA was 9.89x for the year which is down from 10.32x in 2017 and 10.53x in 2016. Although this marks the second consecutive decline since 2016 in valuation multiples, activity remains high. Many companies are seeking strategic targets instead of pursuing natural growth creating heightened interest and competition in M&A which has kept multiples high. Additionally, tax savings and affordable financing played a role in creating an inviting acquisition market. Companies looked to make



deals while conditions are favorable, fearing rising rates and uncertainty going forward.