



Intralinks® Deal Flow Predictor

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

Forecast of global M&A activity through Q2 2017

- > Includes a spotlight feature on how increased protectionism may impact M&A activity and an interview with Pramod Bhandari, Head of M&A and Capital Markets Transactions at Essar Oil, on India – APAC's rising M&A star

A thin, light grey line that starts on the left, dips down, rises to a peak, dips down again, and then rises towards the right, creating a jagged, mountain-like shape.

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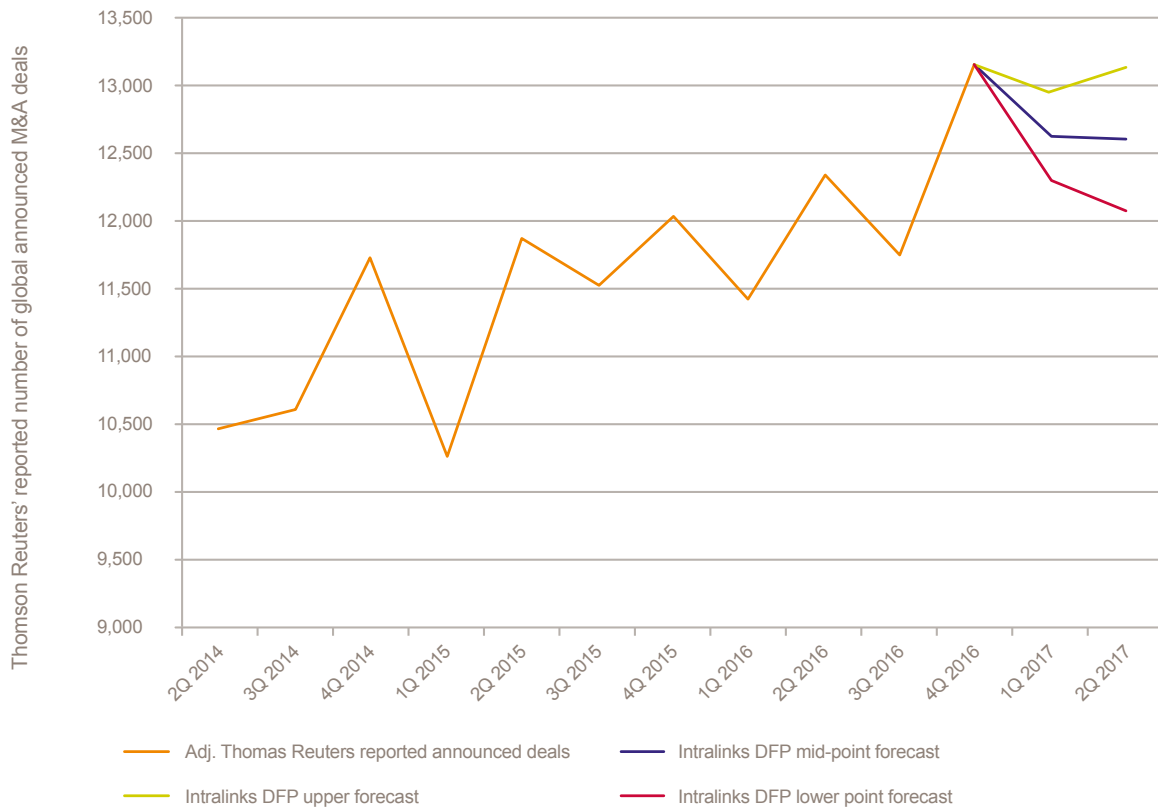
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Welcome to the latest edition of the Intralinks Deal Flow Predictor report. The Intralinks Deal Flow Predictor forecasts the volume of future merger and acquisition (M&A) announcements by tracking *early-stage* M&A activity – sell-side M&A transactions across the world that are in the preparation stage or have reached the due diligence stage. These early-stage deals are, on average, six months away from their public announcement.

Along with our forecast of announced M&A activity for the next six months, this issue of the Intralinks Deal Flow Predictor includes:

- The Intralinks Dealnexus® Mid-Market Monitor: a snapshot of over 1,100 new, actionable global deal opportunities added in Q4 2016 to Intralinks Dealnexus, the largest global online deal sourcing and M&A social network, exclusively for dealmaking professionals;
- Our regional sector “heat map” that indicates the industries by region that we predict will show the greatest increases and decreases in announced M&A transactions in Q2 2017;
- A spotlight feature on how increased protectionism may impact global M&A activity; and
- An interview with Pramod Bhandari, Head of M&A and Capital Markets Transactions at Indian-based oil and gas company Essar Oil.

Intralinks is the leading global provider of software and services, including Virtual Data Rooms (VDRs), for buy-side and sell-side M&A deal management, alternative investments fundraising and reporting, syndicated loan lifecycle management, as well as enterprise collaboration, and has been in business for over 20 years. 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 **Intralinks Deal Flow Predictor** has been independently verified¹ as an accurate predictor of future changes in the global volume (number) of announced M&A transactions, as reported by Thomson Reuters. Quarter-over-quarter (QoQ) percentage changes in the Intralinks Deal Flow Predictor are typically reflected (on average) six months later in announced deal volumes. The Thomson Reuters data on announced deal volumes for the past four quarters has been adjusted by Intralinks for expected subsequent changes in reported announced deal volumes in Thomson Reuters' database.

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



Matt Porzio
VP of Strategy & Product Marketing
Intralinks

Global early-stage deal activity in Q4 2016 increased by 7 percent year-over-year² (YoY), the same rate of YoY growth as in the preceding quarter. This increase in activity was driven by increased numbers of early-stage transactions in three out of the four global regions: Asia Pacific (APAC, up 44 percent), Latin America (LATAM, up 11 percent) and Europe, the Middle East and Africa (EMEA, up 9 percent). In North America (NA), early-stage M&A activity declined by 5 percent.

Based on this data, together with our prediction for M&A announcements in Q1 2017 that we made in the last edition of the Intralinks Deal Flow Predictor, our predictive model is forecasting that the global number of announced deals in 1H 2017 will be around 6 percent higher than in 1H 2016, setting a new record for annual first half global announced deal count.

The fact that the rate of growth in early-stage M&A activity in Q4 2016 remained steady despite the (unexpected) victory of Donald Trump in the US presidential election and the (expected) decision of the US Federal Reserve (Fed) to increase the target range for the federal funds rate by $\frac{1}{4}$ of a percentage point, suggests that dealmaking confidence remains high. The forces that have been powering M&A activity over the past three years – namely a global environment of low inflation, below-trend economic growth and ultra-low interest rates – remain in place today. So far, so bullish.

However, storm clouds may be gathering which could affect global M&A activity over the next few years: the UK government's exit negotiations with the European Union (EU) and the as-yet undefined relationship with its trading partners post-"Brexit", the impact of Donald Trump's presidency and his administration's policy changes, the rise of nationalism, anti-globalization and protectionism (see our special spotlight feature on page 12).

In APAC, early-stage M&A activity has accelerated sharply with activity up in almost every country across the region. The strongest drivers of this growth are coming from India, Southeast Asia, Australia and Japan.

In EMEA, the level of early-stage M&A activity remains robust, although the rate of growth has slowed compared to the previous quarter. The region's growth is being underpinned by the four largest Eurozone economies: France, Spain, Germany and Italy. The UK market remains volatile, with the level of early-stage M&A activity declining, unable to maintain the momentum of its post-Brexit-vote jump in Q3 2016. One region where we expect to see growth is Eastern Europe, where a large increase in early-stage M&A activity is a possible indicator of renewed interest in a region that has suffered several years of flat or declining M&A announcements.

In LATAM, Argentina and Mexico are the main drivers behind the region's recovery. However, the level of early-stage M&A activity in Brazil was flat and LATAM's volatility was evident all of last year, with alternating quarters of increasing and decreasing activity. Given the region's exposure to the US, we expect this volatility to continue in 2017, although Brazilian corporate restructurings may provide an uplift to deal announcements.

In NA, early-stage M&A activity declined, marking a reversal of the previous quarter's increase and continuing a theme that characterized most of 2016: early-stage M&A activity in NA declined in three out of four quarters last year. Canadian early-stage M&A activity declined significantly more than the US.

Globally, the sectors we expect to show the strongest growth in M&A announcements in Q2 2017 (based on Q4 2016 early-stage M&A activity) are Healthcare, Materials and Financials. The sectors expected to show the strongest declines are Industrials, Energy & Power and Consumer & Retail. Our sector heat map on page 9 provides a more detailed, regional view.

^[2] Unless stated otherwise, all references to percentage growth in early-stage M&A activity as shown by the Intralinks Deal Flow Predictor refer to the percentage difference in the number of early-stage M&A deals in Q4 2016 compared to the same period one year prior.

- 1** The global number of announced M&A deals in 1H 2017 will increase by around 6 percent YoY, with a range between 3 percent and 10 percent.
- 2** In APAC, M&A announcements in Q2 2017 will increase YoY, with the strongest growth coming from India, Southeast Asia and Australia. South Korea will be the only large APAC economy to show a decline in Q2 2017. The APAC sectors with the strongest YoY growth in Q2 2017 M&A announcements will be Financials, Consumer & Retail and Healthcare.
- 3** In EMEA, M&A announcements in Q2 2017 will increase YoY, with the strongest growth coming from France, Spain, Germany and Eastern Europe. The UK will show flat or slightly declining activity in Q2 2017. The EMEA sectors with the strongest YoY growth in Q2 2017 M&A announcements will be Consumer & Retail, TMT (Technology, Media and Telecoms) and Energy & Power.
- 4** In LATAM, M&A announcements in Q2 2017 will increase YoY, with the strongest growth coming from Argentina and Mexico. In Q2 2017, Brazil will show flat or slightly declining M&A activity and M&A announcements in Chile will decline. The LATAM sectors with the strongest YoY growth in Q2 2017 M&A announcements will be Healthcare and Real Estate.
- 5** In NA, the number of M&A announcements in Q2 2017 will decrease YoY, in both Canada and the US. The NA sectors leading the decline in announcements in Q2 2017 will be Consumer & Retail, Industrials and Energy & Power. The Materials, Financials and Healthcare sectors will, however, buck the overall decrease and show increasing announcements in Q2 2017.



Philip Whitcheho
VP of Strategy & Product Marketing
Intralinks

The latest Intralinks Deal Flow Predictor data indicates that global early-stage M&A activity in Q4 2016 increased by 7 percent YoY, the same YoY increase as in the previous quarter and a significant increase compared to the 2 percent YoY growth we saw in 1H 2016. The negative sentiment that appeared to weigh on dealmaking in the first half of last year – caused by concerns over sluggish global economic growth, financial market volatility, a sharp decline in global equity markets at the start of 2016, the UK EU membership referendum and the upcoming US presidential election – appears to have been trumped in the second half of 2016 by the return of confidence in the M&A market.

Global dealmakers, 85 percent of whom believed that Hillary Clinton would become US president and over half of whom believed that a Trump presidency would be negative for M&A activity³, decided to press on with their M&A plans. The recent boom in global equity markets, up over 8 percent in US dollar terms since Donald Trump's election victory, appears to have vindicated their decision.

In the recent editions of the Intralinks Deal Flow Predictor, we have talked about the powerful convergence of the “three forces” that have driven the growth in global dealmaking over the past three years:

- low and below-trend economic growth in many advanced and emerging economies (therefore hard for companies to grow revenues and profits organically);
- very low inflation/deflation (therefore hard for companies to raise prices for their goods and services organically); and
- historically low interest rates (therefore debt financing for acquisitions is cheap and readily available).

For now, the “three forces” are still largely in place (although economic growth is forecast to pick up in 2017 and 2018, according to the latest World Economic Outlook (WEO) update⁴ from the International Monetary Fund (IMF), inflation expectations are also increasing and are at a 12-year high according to a recent survey⁵ of global fund managers by Bank of America Merrill Lynch, and the US began its interest rate tightening cycle in December 2015). However, we can also foresee an increase in risks which may slow, halt or even lead to a decline in global M&A activity. These risks are primarily political:

^[3] According to the results of an Intralinks survey of 1,600 M&A professionals conducted during early October 2016.

^[4] <http://www.imf.org/external/pubs/ft/weo/2017/update/01/>

^[5] http://www.fundssociety.com/sites/default/files/news/downloads/bofamiglobalfms_noviembre.pdf

- the rise of nationalism, anti-globalization and protectionism (see our special spotlight feature on page 12), resulting in increased restrictions on global trade and cross-border M&A activity;
- the unwinding of cross-border economic integration;
- curbs on migration; and
- an increase in geopolitical tensions.

In the short term at least, based on our insights into the volume of early-stage M&A activity, we remain optimistic on the outlook for global M&A activity in 1H 2017.

Asia Pacific – booming, India still on top

Early-stage M&A activity in APAC increased by 44 percent, the highest rate of YoY growth that we have seen in this region for over four years. While almost all parts of APAC showed double digit YoY growth, India once again proved to be the fastest growing country in the region, a position it has held for three consecutive quarters, with YoY growth of 100 percent. In our regular Guest Comment interview on page 16, Pramod Bhandari, Head of M&A and Capital Markets Transactions at Indian-based oil and gas company Essar Oil, explains the drivers for both Indian corporates looking outside of their home market for deals and the attractiveness of the Indian market for overseas acquirers. He also gives his outlook on M&A activity in India, predicting that, within ten years, India will be one of the top five global markets for M&A.

Other parts of APAC contributing to the significant growth that we are seeing in early-stage M&A activity include Southeast Asia (up 49 percent), Australia (up 47 percent) and Japan (up 33 percent).

In North Asia, South Korea was a notable exception to the APAC region's strong performance, with South Korean early-stage M&A activity down by 31 percent.

Based on our regional sector heat map, we predict that the Financials, Consumer & Retail and Healthcare sectors will contribute the most to the growth in the number of announced APAC M&A deals in Q2 2017.

Europe, the Middle East & Africa – Brexit worries slow Europe's growth

Early-stage M&A activity in EMEA increased by 9 percent, a slowdown in the rate of YoY growth from the previous quarter's 14 percent increase. The region's growth continues to be powered by the "big 4" Eurozone countries: France (up 28 percent), Spain (up 24 percent), Germany (up 17 percent) and Italy (up 15 percent). Europe's largest M&A market, the UK, was a notable exception, declining by 2 percent.

The UK economy performed much better in 2H 2016 than almost all forecasters predicted following June's referendum result to leave the EU. However, while the IMF's January 2017 WEO update⁴ recently upgraded its estimate for UK economic growth in 2017 by 0.4 percentage points to 2 percent (the largest upgrade of the advanced economies), the longer term picture looks less bright: at the same time the IMF lowered its forecast for UK economic growth in 2018 by 0.3 percentage points to just 1.4 percent.

January also saw UK Prime Minister Theresa May finally unveiling her administration's negotiating position for what is looking increasingly likely to be a "hard Brexit": no membership of the EU single market or the customs union. May has also voiced support for a stricter "public-interest test" for significant foreign takeovers of UK companies, and she is proposing a new "industrial strategy" for the UK that would involve more government intervention in the economy. With the UK government promising to trigger "Article 50" by the end of March, which would begin the two-year process of Brexit negotiations with the EU, the uncertainty created by these proposals is likely to have a chilling effect on inward investment and M&A activity in the UK over the next two years.

Based on our regional sector heat map, we predict that the Consumer & Retail, TMT and Energy & Power sectors will contribute the most to the growth in the number of announced EMEA M&A deals in Q2 2017.

Latin America – rollercoaster ride

Early-stage M&A activity in LATAM increased by 11 percent, almost reversing the previous quarter's 13 percent YoY decline. The region has seen four consecutive quarters of alternating high single and double digit percentage increases and decreases in early-stage M&A activity: the volatility has been driven by Brazil's severe, ongoing two-year economic recession and concerns over the impact on the Mexican economy of US president Donald Trump's protectionist economic agenda.

The increase we saw in the region's level of early-stage M&A activity was due mainly to Argentina (up 80 percent) and Mexico (up 25 percent), overcoming the lack of growth in Brazil. Despite this, we still believe that Brazil may surprise on the upside in 2017 due to the number of corporate restructurings that are expected to come to market.

Based on our regional sector heat map, we predict that the Healthcare and Real Estate sectors will contribute the most to the growth in the number of announced LATAM M&A deals in Q2 2017.

North America – Donald Trump, you're hired!

Early-stage M&A activity in NA decreased by 5 percent, a turnaround from the previous quarter's 5 percent YoY growth. NA spent most of 2016 with declining levels of early-stage deal activity, with Canada faring significantly worse than the US. In the last quarter of 2016, this trend repeated, with deal activity in Canada down 13 percent and deal activity in the US down 4 percent. Canada is still adjusting to the sharp decline in M&A activity in the previously dominant Energy and Mining sectors, whose exports and asset prices have been hit hard by the almost four-year slump in commodity prices.

Dealmakers, nervous about incoming US president Donald Trump's election campaign promises to pursue a nationalist, protectionist and anti-globalization agenda, may be opting to sit on their hands to see how Trump's campaign rhetoric translates into policies of the new administration. We expect volatility and uncertainty to be a feature of M&A activity in NA in 2017.

Based on our regional sector heat map, we predict that the Consumer & Retail, Industrials and Energy & Power sectors will lead the decline in M&A announcements in NA in Q2 2017, whereas the Materials, Financials and Healthcare sectors will buck the overall decline and show increasing levels of M&A announcements in NA in Q2 2017.



facilitating over
US\$31.3+ trillion in
transactions



APAC

Year-over-year⁶: +44%
 Quarter-over-quarter⁷: +37%



EMEA

Year-over-year: +9%
 Quarter-over-quarter: +2%



LATAM

Year-over-year: +11%
 Quarter-over-quarter: -22%

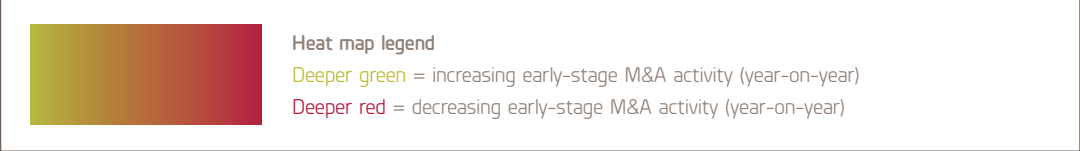
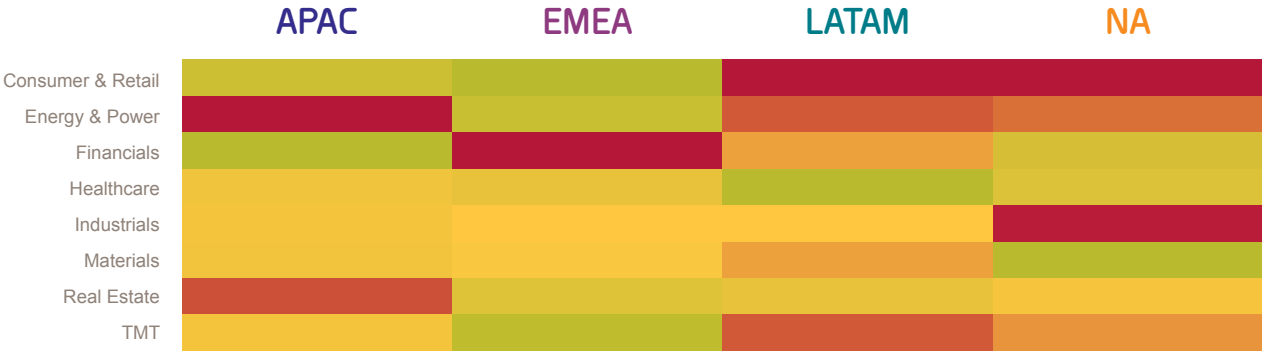


NA

Year-over-year: -5%
 Quarter-over-quarter: -2%

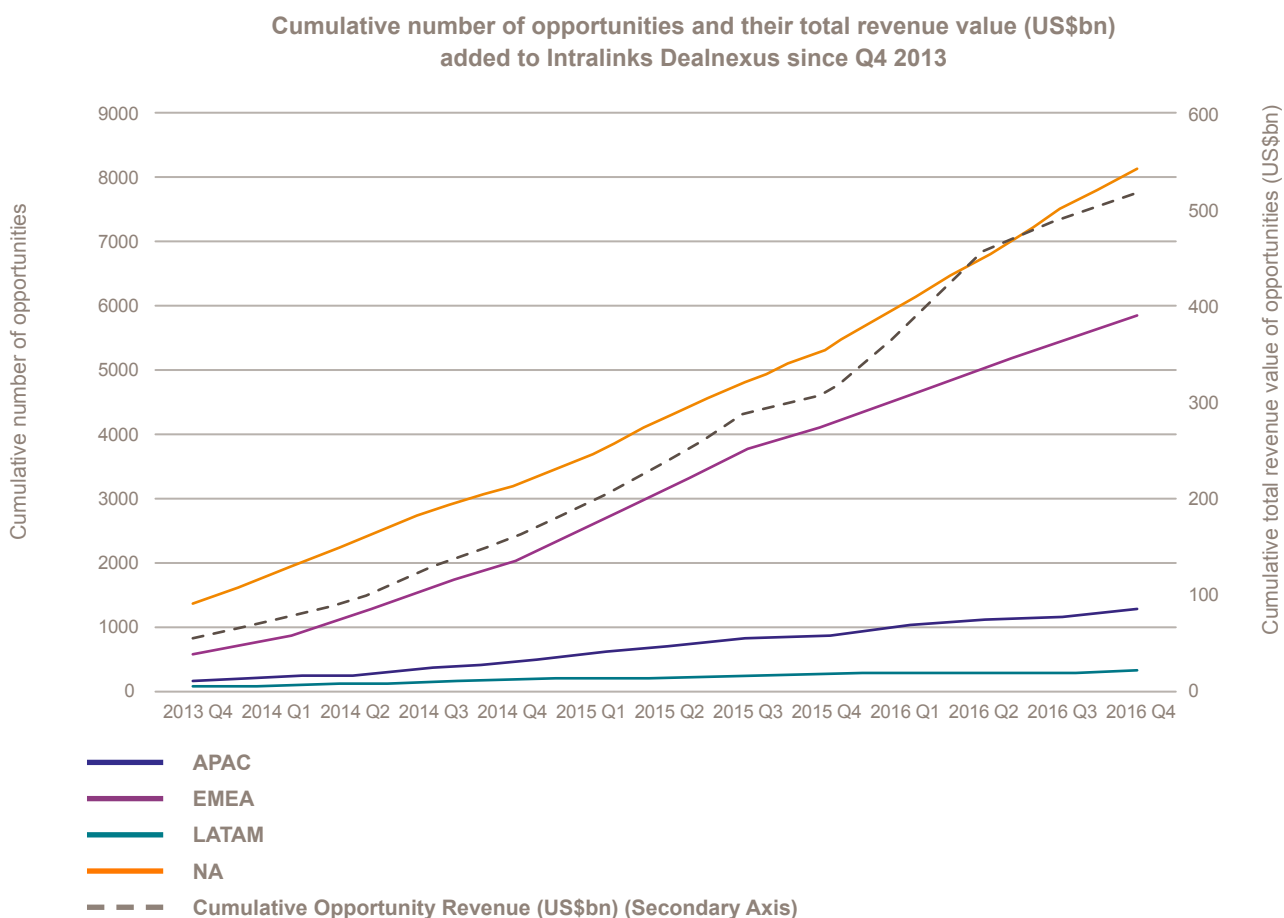
[6] Percentage difference between the volume of early-stage M&A activity for Q4 2016 compared to Q4 2015.
 [7] Percentage difference between the volume of early-stage M&A activity for Q4 2016 compared to Q3 2016.

Regional sector heat map of early-stage M&A activity across the world



The Intralinks Dealnexus Mid-Market Monitor provides a quarterly snapshot of over 1,100 new, actionable M&A opportunities created and securely marketed in Q4 2016 on Intralinks Dealnexus, the largest global online deal sourcing and M&A social network, exclusively for M&A professionals.

The chart below shows the cumulative number of deal opportunities and their total revenue value added to Intralinks Dealnexus since Q4 2013, highlighting the growing number of corporates, private equity (PE) firms and advisors using Intralinks Dealnexus to discretely market their deal opportunities to a global network of vetted buyers and investors. The table on the next page shows the top five opportunities by region and revenue on the Intralinks Dealnexus public deal marketplace as of the end of Q4 2016.



APAC

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Human Resources and Personnel Management Employee Leasing Services Hotels And Motels Rooming And Boarding Houses Residential Design Services Executive Placing Services	228.4	23.9
Mobile Data Services Satellite Communication Services	116.7	51.7
Fertilizers and Agricultural Chemicals	60.0	5.0
Textiles	48.0	2.5
Food Distributors Grocery Stores Food Products Fruit and Vegetable Stores and Markets	45.0	6.6

EMEA

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Security and Alarm Services Residential Security and Personal Safety Services Security and Alarm Systems	319.0	96.0
Consumer Services	212.0	11.0
Consumer Electronics Home Entertainment Software Housewares and Specialties	200.0	16.0
Electrical Equipment	193.2	19.3
Property and Casualty Insurance	190.0	36.0

LATAM

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Home Improvement Retail Home Furnishing Retail	45.8	3.9
Wood Household Furniture	35.0	10.0
Electronic Equipment, Instruments and Components	30.0	10.0
Pumps and Pumping Equipment Heavy Electrical Equipment Sewage Treatment Systems Waste Water Treatment Electric Utilities	24.5	2.2
Food, Beverage and Tobacco Dairy Products and Eggs	23.4	1.7

NA

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Oil, Gas and Consumable Fuels	500.0	100.0
Building Products Homebuilding	300.0	30.0
Long Distance Telecommunications Services	270.0	11.0
Consumer Finance Diversified Financial Services	250.0	10.0
Construction and Engineering Construction Materials Industrial Conglomerates Building Products	200.0	16.0

⁸⁾ Revenue between US\$20m and US\$500m.

**Grace Keeling**

Director of Content Marketing and Communications
Intralinks

Protectionism seems to be the new normal, and it's not going away any time soon. Especially after the political events of 2016 and early 2017.

Protectionism is defined as the theory or practice of shielding a country's domestic industries from foreign competition. Import taxes, trade restrictions and foreign investment restrictions are the most commonly used tools. In an M&A context, protectionism often takes the form of government intervention to prevent a business with national strategic value from falling into foreign ownership.

We are already seeing protectionist attitudes towards trade. Newly-elected US president Donald Trump's election campaign promises to roll back globalization and put "America First" were quickly backed up once he gained office: within the first two weeks of his inauguration, he had signed an executive order to withdraw from the Trans Pacific Partnership (TPP), a trade agreement among 11 Pacific Rim countries that has not been ratified by Congress, declared that he would renegotiate or scrap the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico, threatened car manufacturers with a proposed 35 percent tariff on vehicles imported into the US and accused Germany of exploiting the US and other countries with an undervalued currency.

So where does the M&A market fit into all of this? The grounds for restricting foreign ownership can be far from straightforward, making it very difficult even for experts to work out whether a deal is likely to be blocked or require modification. Ideas of what constitutes a national strategic interest can change with the political conditions and vary widely from country to country. There are some industries such as defense and, arguably, the energy sector that fall quite clearly under this umbrella, often alongside standard protections for media plurality and financial stability. But, in other sectors, things are not quite as clear.

For example, it is difficult to see how yoghurt can be classified as being of strategic importance. Yet French dairy giant Danone twice fended off foreign interest with the help of the French government declaring the company to be of national importance. In 2005, US food group PepsiCo set its eye on Danone and, in 2010, Danone's mineral water business Evian attracted the attention of a Japanese suitor. In both instances, the deals faced strong opposition from French politicians and never came to fruition.

Until recently, these transactions were the most high profile European examples of the vagaries of protectionism. But the mood is changing, especially after the political events of 2016. For example, the normally M&A-friendly UK – scarred by the loss of iconic confectionery manufacturer Cadbury to Kraft Foods of the US in 2010 and the failed acquisition of pharmaceutical company AstraZeneca by Pfizer of the US in 2014 – is now considering a stricter "public-interest test" for foreign takeovers of UK companies.

Taking a closer look now at more recent deal making, it is too soon to tell how protectionism is playing out in every market, but what does seem apparent is that, at the moment, protectionism is particularly affecting Chinese buyers.

According to data from Thomson Reuters, Chinese companies announced a record US\$238.4 billion of overseas acquisitions in 2016, almost three times the amount compared to the previous year. However, against a backdrop of protectionist obstacles for Chinese acquirers and restrictions by the Chinese government on outbound M&A activity to prevent capital flight, China may slow its overseas dealmaking pace in 2017.

Germany has become a popular hunting ground for Chinese dealmakers in search of sophisticated technology and, until recently, the German government and regulators were generally opposed to “nationalist” interventions in M&A transactions. However, of late, the climate has changed there as well.

For example, in January 2016, serial acquirer ChemChina was able to buy German industrial machinery maker KraussMaffei without attracting too much attention but, come June 2016, Chinese industrial conglomerate Midea faced a certain degree of opposition to its proposed acquisition of robot maker Kuka, with German politicians calling for a “local” solution [read: if not German, then at least European], and Angela Merkel herself reportedly getting involved. The deal nevertheless went ahead, facilitated by the support of Kuka’s former largest shareholder, Voith.

Late 2016 saw the first signs of a backlash against Chinese outbound M&A activity, with regulators blocking announced deals by Chinese acquirers in Germany (for semiconductor equipment manufacturer Aixtron), the Netherlands (for Lumileds, the LED lighting subsidiary of Philips) and Australia (for the New South Wales electricity distribution network, Ausgrid, and Australia’s largest cattle station and landowner, S. Kidman & Co.). In these cases, regulators in the US and Australia objected to these deals on the basis of public interest and/or national security. Ultimately, Lumileds was subsequently acquired by US private equity group Apollo Global Management for a valuation 40 percent below the value of the previously announced deal with the Chinese investors.

According to research⁹ by boutique investment bank Grisons Peak, competition and national interest concerns have thwarted more than US\$40 billion of planned Chinese bids into Europe since mid-2015. Moreover, well over ten large acquisitions globally have been dropped by Chinese suitors since July 2015, mainly as a result of tightening official examinations by regulators in the US, Australia and elsewhere.

For example, by the last quarter of 2016, Chinese buyers were facing a much more hostile environment in Germany. A Chinese consortium looking to buy Siemens’ lighting division, Osram Lights, was forced to abandon its bid in light of fierce opposition from powerful German employment institutions - unions and works councils. Further, in the case of Aixtron, a German supplier to the semiconductor industry, the German Finance and Energy Ministry withdrew its initial approval for Fujian Grand Chip’s acquisition plans, effectively blocking the deal from going ahead. At the same time, the Committee on Foreign Investment in the United States (CFIUS) blocked the proposed acquisition because of national security concerns – another sign that increased hostility towards Chinese investors is by no means restricted to Germany.

⁹ <http://www.chinainvestmentresearch.org/press/24-october-2016-nearly-40bn-chinese-acquisitions-pushed-back-west-premium/>

Australia is in a similar situation to Germany in that its businesses have attracted significant attention from Chinese buyers and it is also pushing back on transactions. Deals by Chinese buyers to acquire Australia's largest cattle station and landowner, S. Kidman & Co., and the New South Wales state-owned electricity distribution company, Ausgrid, were both blocked by Australia's Foreign Investment Review Board, with both assets subsequently being acquired by Australian-led consortiums.

In the US, Unisplendour, a subsidiary of Chinese state-owned technology group Tsinghua Holdings, terminated its plans to acquire a stake in data storage provider Western Digital after the proposed acquisition was flagged for review by CFIUS.

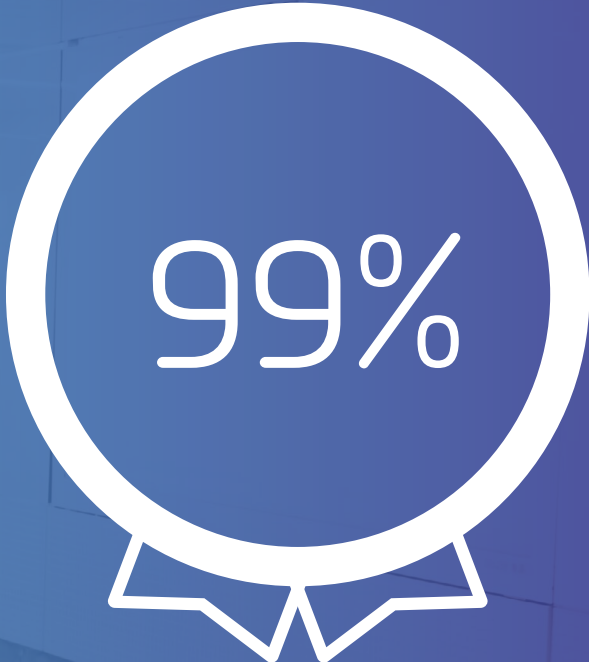
At the same time that protectionist sentiment is blocking Chinese outbound M&A deals, the Chinese government is also seeking to put the brakes on Chinese companies' overseas M&A ambitions in order to limit capital flight and the depletion of China's foreign currency reserves. Reportedly¹⁰, China will bar significant foreign investments by its companies that are above a certain value or in non-related industries unless these are deemed "strategic" or in the national interest.

In the discussion around protectionism, a Bloomberg journalist raises another interesting point: should Chinese firms have free rein to buy what they want on the international stage, when overseas companies face restrictions while shopping for acquisitions in China?¹¹ Chinese buyers can hardly be surprised that, given the country's history of making it challenging for inbound investors to do deals in China, Chinese investors looking to invest outside of China are now having to surmount hurdles in the other direction.

The protectionism trend is here for the foreseeable future. Right now, global M&A activity is increasing and, logically, more deals means a corresponding increase in those that are blocked due to protectionism. However, with the likely increase in protectionist attitudes, there's also a good chance that the proportion of deals held up or blocked for protectionist reasons is likely to rise faster than the overall growth in announced deals. We'll certainly see its impact on a number of megadeals in 2017.

^[10] <https://www.ft.com/content/2511fa56-b5f8-11e6-ba85-95d1533d9a62>

^[11] <https://www.bloomberg.com/quicktake/china-s-shopping-spree-spurs-mega-deals-and-suspicion-quicktake>



of the Global Fortune 1000
have used Intralinks

**Pramod Bhandari**

Head of M&A and Capital Markets Transactions,
Essar Oil

For this issue of the Intralinks Deal Flow Predictor, Intralinks (IL) interviewed Pramod Bhandari (PB), Head of M&A and Capital Markets Transactions at Indian-based integrated oil and gas company Essar Oil, part of the Essar Global Fund, which controls a number of world-class assets diversified across the core sectors of Energy, Metals & Mining, Infrastructure and Services. Mr. Bhandari is a Chartered Accountant and Company Secretary and has spent over 12 years in the Corporate Finance department of Essar Oil Limited and Essar Energy PLC. His experience includes project funding through debt and equity in domestic and international markets, M&A, international listings, debt restructuring, valuation, due diligence, investor relations, investment advisory and strategy.

IL: *M&A activity in India has been on a significant upwards trajectory over the last three years. What are the key drivers of this?*

PB: Indian corporates' M&A deals are mainly driven by three fundamental factors. First, diversification of product portfolios or diversification into different geographies, which essentially provide protection in term of unusual currency fluctuations and political upheaval. Second, the majority of Indian businesses are mid to small sized compared to their global peers. In order to achieve global scale and competitiveness, they prefer an acquisition strategy rather than building the capacity on their own. Third, acquisitions provide ample opportunities to Indian business for both horizontal and vertical growth and seamless integration of the entire value chain. Further, mergers are also driven by the fact that many markets need to be consolidated over time to enable the emergence of the top three or four players who can provide world class services or offer world class products compared to multiple players providing similar services at very small scale.

IL: *On the flip side, what does India have to offer to inbound investors?*

PB: There are multiple factors that draw international businesses into India. First, India offers huge growth potential due to its large population base, lower per capita consumption and fast-growing economy. Over the past 10 years, the country's GDP grew at well over 7 percent per annum and it is expected to grow between 7-9 percent per annum in the next ten years. The opportunities arising from that are enormous. Second, there are the highly favorable demographics – the country has more than 50 percent of its population below the age of 25 and more than 65 percent below the age of 35. The opportunities, particularly for players in the consumer and TMT sectors are very obvious. They will just need to get into the consumers' mind set, understand their exact requirements and offer suitable products and services. Finally, there is a huge potential to execute broad buy-and-build strategies wherein global companies can buy Indian companies and expand their capacity to cater to the domestic market as well as the global market.

IL: *What challenges are dealmakers facing when it comes to deal origination and execution?*

PB: The biggest challenge for inbound investors is to understand Indian market dynamics (factors impacting supply and demand) and the comparatively complex system of compliance with Indian laws, rules, regulations and understanding and adherence to dynamic government policies. For Indian investors scouting for deals outside India, the biggest challenge is to understand and make a proper estimation of retirement benefits like pensions. India has a rather more “relaxed interpretation” of companies’ welfare obligations; however these obligations, for outbound deals, can be much higher than the actual estimation made at the time of deal.

IL: *Who are the key players in the Indian advisory landscape?*

PB: It is a mix of large international players offering all-round support including financing, such as Citigroup, UBS and Credit Suisse, J.P. Morgan, Morgan Stanley, etc. There are a few domestic players like Edelweiss, Avendus, IDFC, Ambit and SMC, among others who have created niche segmental expertise in particular industries. Global professional services firms like EY, KPMG, PWC and Deloitte have a significant presence in due diligence and transaction advisory services in India. Khaitan & Company, J. Sagar & Associates, Shardul Amarchand Mangaldas & Co, Talwar, Thakore & Associates, Cyril Amarchand Mangaldas, AZB & Partners and Luthra & Luthra Law Offices are some of the prominent legal firms in the M&A space.

IL: *How much of a role is private equity playing in the upsurge of M&A activity in India?*

PB: Private equity players are mainly looking at smaller and medium size deals, where they can come in, buy the company and seek to exit the investment once the business reaches a certain level. They are essentially looking for an exit at 3-5 times their initial investment through an IPO or divestment to other existing players. To date, the role of private equity players has been limited in terms of M&A deals; however, that has been evolving over last few years and we may see an increase in the level of participation of private equity players in the domestic M&A space in the years to come.

IL: *Currency fluctuations have long posed a significant hurdle to dealmaking. How are those being dealt with? What new approaches have been developed?*

PB: It is true that, in the past, currency fluctuations have had an adverse impact on M&A transactions, creating significant hurdles for dealmakers. However, the market and dealmakers have matured and learned some key lessons. Now, almost all deals are fully hedged and any other challenges pertaining to the transaction are being fully addressed. When it comes to the level of sophistication and the dealmaking environment, we are increasingly moving towards a “fully mature market,” similar to practices adopted in developed markets.

IL: *The government is currently pushing through an extensive reform program to the economy and the monetary system, aimed – in part – at facilitating dealmaking. Can you tell us a little more about this and what impact it is having on dealmaking?*

PB: It is true. The Indian government is pushing an extensive reform program to accelerate the growth of the Indian economy. Apart from this, the Indian government is making structural changes in the economy that will be reflected in economic growth in years to come, such as the demonetization of the currency to bring a major part of the uncirculated currency into the banking system and bringing more people under the taxation regime. Other government initiatives include the “Made in India,” “Skill India” and “Clean India” campaigns and the encouragement of digital payment, rather than cash, for goods and services.

Further, the fiscal deficit is under control thanks to the decline in oil prices and inflation also seems to be under control. The government is utilizing the money collected by way of taxation of petroleum products to build infrastructure in the country.

All these factors will indeed contribute to continued high levels of GDP growth in the country, which in turn will boost M&A activity levels. Overall, the government has created a conducive environment for dealmaking through the simplification of policies and reforms to the Indian legal system.

IL: *Do Indian buyers feel competitive pressure by the acquisition aspirations of Chinese buyers?*

PB: This is true for both countries. The acquisition aspirations of Chinese buyers spur on Indian players and vice versa, as both are targeting similar types of raw materials, natural resources or assets across the globe. Chinese corporates were historically more aggressive compared to their Indian counterparts, but Indian corporates adopted a more steady approach that proved to be beneficial as commodity prices declined over the past four years. Chinese companies are facing pressures in their local market as export opportunities are becoming more challenging due to the protectionist policies adopted by various countries and the emergence of other countries as cheaper manufacturing hubs, providing tough competition for Chinese products. When we are looking at inbound investments, I feel Indian companies are able to offer greater opportunities due to liberal government policies, helped by a widely English-speaking and highly skilled population.

IL: *What are your expectations for Indian M&A activity in the future? Will the upward trend continue? What challenges could derail the upward trend?*

PB: Yes, I believe that the upward trajectory for Indian M&A activity will continue. What we see today is a small fraction of what the Indian economy is capable of. We will see a huge upward momentum in the Indian market and it is expected that India will be one of the top five global markets for M&A activity within the next 10 years.

IL: *Pramod, thank you very much for taking the time to talk to us.*

The Intralinks Deal Flow Predictor provides Intralinks' perspective on the level of early-stage M&A activity taking place during any given period of time.

The statistics contained in this report reflect the volume of VDRs opened, or proposed to be opened, through Intralinks or other providers for the purpose of conducting due diligence on proposed transactions, including asset sales, divestitures, equity private placements, financings, capital raises, joint ventures, alliances and partnerships.

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To verify the predictive nature of the Intralinks Deal Flow Predictor, we compared the data underlying the Intralinks Deal Flow Predictor with subsequent announced deal volume data reported by Thomson Reuters 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 Thomson Reuters. We engaged Decision Economics Inc., an independent global economic and financial markets research and consulting firm, to assess, replicate and evaluate this model. Decision Economics' analysis showed that our prediction model has a very high level of statistical significance, with a more than 99.9 percent probability that the Intralinks Deal Flow Predictor is a statistically significant six-month predictive indicator of announced deal data, as subsequently reported by Thomson Reuters. We plan to periodically update the independent statistical analysis to confirm the Intralinks Deal Flow Predictor's continuing validity as a predictor of future M&A activity.

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Intralinks, Inc., an indirect wholly owned subsidiary of Synchronoss Technologies, Inc. (NASDAQ: SNCR), is a leading, global technology provider of secure enterprise content collaboration solutions. For more information, visit www.intralinks.com.

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