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# Intralinks<sup>®</sup> Deal Flow Predictor

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

**Forecast of global M&A activity through Q4 2017**



Includes a spotlight feature on cybersecurity and its impact on M&A transactions and an interview with Mr. Phillip Lovett, Managing Director, Credit & Structuring for UK Financial Sponsors at Royal Bank of Scotland, on the current state of mid-market financial sponsor financing



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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:

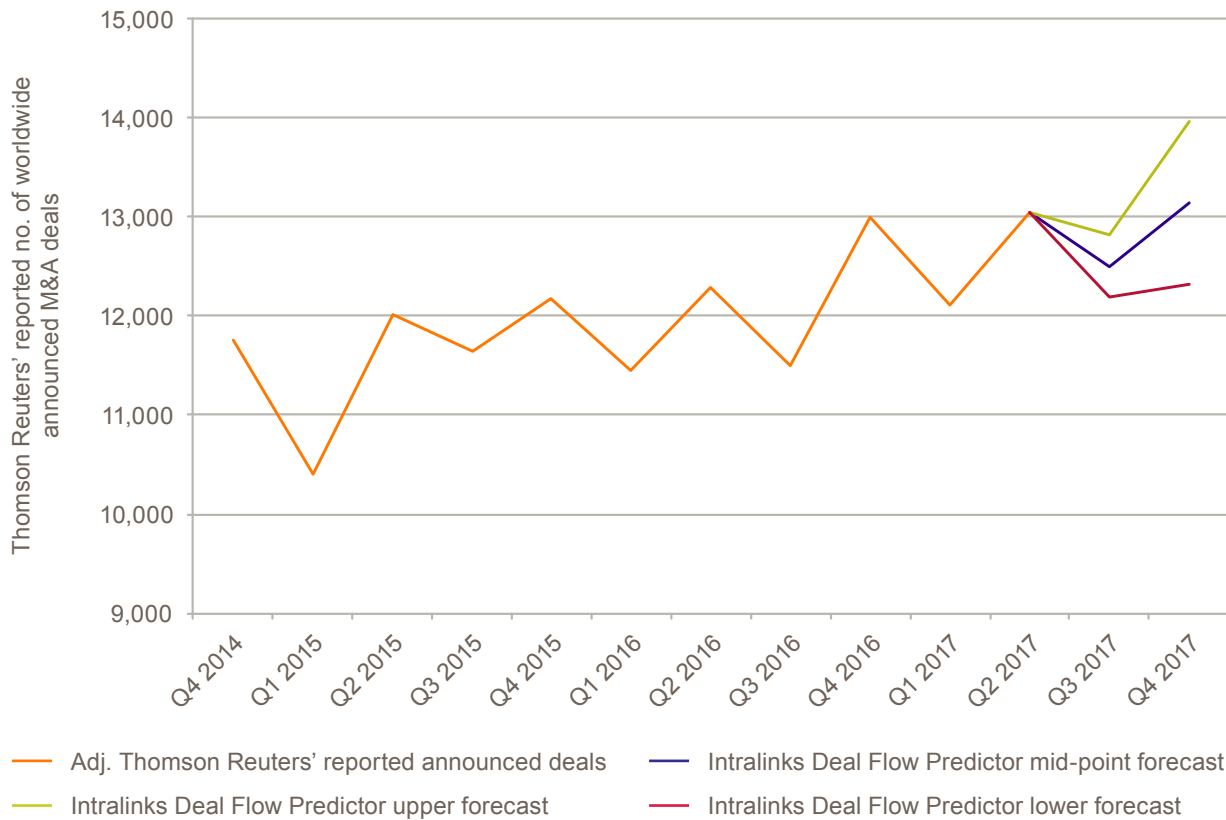
- The Intralinks Dealnexus® Mid-Market Monitor: a quarterly snapshot of new, actionable global M&A opportunities added in Q2 2017 to Intralinks Dealnexus, the largest global online deal sourcing and M&A social network, exclusively for dealmaking professionals
- Our regional sector “heat map” that indicates the industries by region that we predict will show the greatest increases and decreases in announced M&A transactions over the next six months
- A spotlight feature on cybersecurity and its impact on M&A transactions
- An interview with Mr. Phillip Lovett, Managing Director, Credit & Structuring for UK Financial Sponsors at Royal Bank of Scotland, on the current state of mid-market financial sponsor financing

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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.

# Worldwide announced deal volume forecast

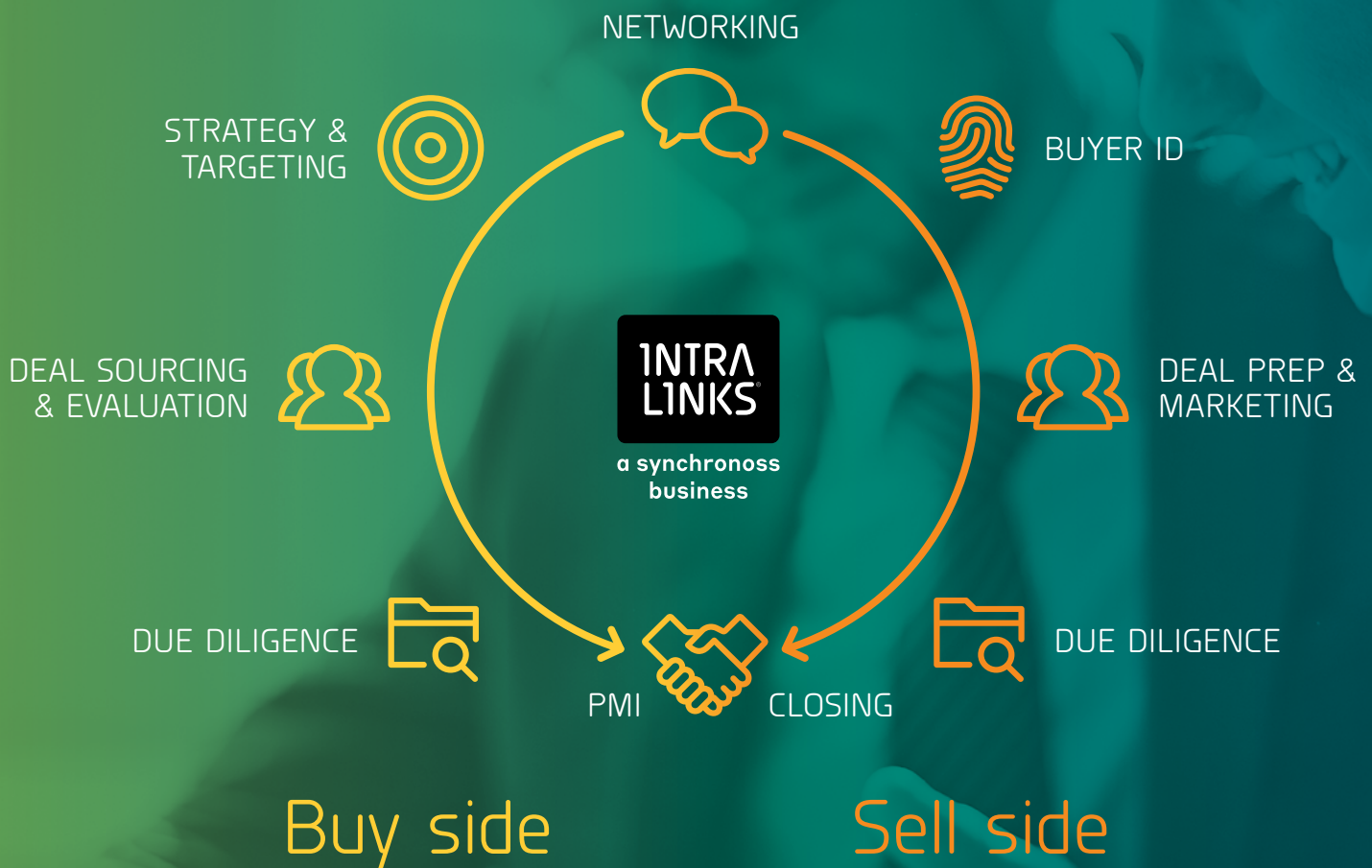
Intralinks' forecast of Thomson Reuters' future reported volume of worldwide announced M&A deals for the next two quarters



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

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

# Intralinks for the deal lifecycle



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**Matt Porzio**  
SVP of Strategy & Marketing  
Intralinks

Worldwide *early-stage* M&A activity in Q2 2017 increased by 6 percent year-over-year (“YoY”)<sup>2</sup>, a reduction from the 14 percent YoY growth spike seen in Q1 2017, albeit a return to the steady mid-single-digit levels of growth we had seen over the previous three quarters. At the same time, data from Thomson Reuters indicates that the number of worldwide M&A deals that were *announced* in Q2 2017 also increased by 6 percent YoY.<sup>3</sup>

Based on these data points, our predictive model is forecasting that the number of worldwide announced M&A deals for the full year 2017 (“FY2017”) is expected to increase by around 5 percent compared to FY2016<sup>4</sup>, with a range between 3 percent and 8 percent, setting a record for worldwide annual announced deal count: in 2017, for the first time, according to our prediction model, the number of worldwide annual announced M&A deals could exceed 50,000.

Worldwide, over the next six months, the strongest growth in deal announcements is expected to come from the Healthcare, Real Estate and Consumer & Retail sectors.

In Asia Pacific (“APAC”), the number of announced M&A deals in FY2017 is predicted to increase by around 11 percent YoY, with a range between 8 percent and 13 percent. Over the next six months, the strongest growth in APAC deal announcements is predicted to come from Southeast Asia, India and Australia and from the Real Estate, Healthcare and Materials sectors.

In Europe, the Middle East & Africa (“EMEA”), the number of announced M&A deals in FY2017 is predicted to be 1 percent lower YoY, with a range between -3 percent and 1 percent. Over the next six months, the strongest growth in EMEA deal announcements is predicted to come from Eastern Europe, the Middle East & North Africa and Southern Europe and from the Real Estate, Energy & Power and Financials sectors.

In Latin America (“LATAM”), the number of announced M&A deals in FY2017 is predicted to increase by around 7 percent YoY, with a range between 1 percent and 13 percent. Over the next six months, the strongest growth in LATAM deal announcements is predicted to come from Mexico, Argentina and Brazil and from the Healthcare, Technology, Media & Telecoms (“TMT”) and Industrials sectors.

In North America (“NA”), the number of announced M&A deals in FY2017 is predicted to increase by around 10 percent YoY, with a range between 7 percent and 13 percent. Over the next six months, the strongest growth in NA deal announcements is predicted to come from the Healthcare, Materials and Consumer & Retail sectors.

<sup>[2]</sup> Unless stated otherwise, all references to year-over-year 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 compared to the same period one year prior.

<sup>[3]</sup> [http://dmi.thomsonreuters.com/Content/Files/1H2017\\_Global\\_MNA\\_Financial\\_Advisor\\_Review.pdf](http://dmi.thomsonreuters.com/Content/Files/1H2017_Global_MNA_Financial_Advisor_Review.pdf). The Thomson Reuters data on the number of announced deals for the past four quarters has been adjusted by Intralinks for expected subsequent changes in reported announced deal volumes in Thomson Reuters’ database.

<sup>[4]</sup> Unless stated otherwise, all references to year-over-year percentage growth in the expected number of announced M&A deals refer to the percentage difference in the expected number of announced deals compared to the same period one year prior.



**Philip Whitchelo**  
VP of Strategy & Product Marketing  
Intralinks

Ten years after the start of the global financial crisis, worldwide M&A activity continues to set new highs, driven by an extraordinary surge in dealmaking in NA. According to Thomson Reuters, the number of announced deals in NA in 1H 2017 increased by an astonishing 28 percent YoY, far outstripping deal count growth in the rest of the world. The dealmaking environment continues to be supported by a combination of a gradual pickup in global economic growth, subdued inflation in advanced and emerging economies and historically low interest rates.

We continue to believe that the primary risks to the scenario of steadily increasing M&A activity continue to be political, with any increases in nationalism, protectionism and restrictions on global trade and cross-border economic integration all having the potential to negatively affect dealmaking sentiment.

## Asia Pacific

In APAC, according to the latest Intralinks Deal Flow Predictor data, early-stage M&A activity in Q2 2017 increased by 26 percent YoY. At the same time, according to Thomson Reuters, the number of announced M&A deals in APAC in Q2 2017 rose by 8 percent YoY. Based on this data, our predictive model is forecasting that the number of announced M&A deals in APAC in FY2017 will increase by around 11 percent YoY.

Almost all regions within APAC, except for Japan, are contributing to the strong growth in M&A activity, with Southeast Asia, India and Australia leading the way. Japan recorded its second consecutive quarter of declining early-stage M&A activity in Q2 2017, with the number of early-stage deals falling by 12 percent YoY, following on from a 7 percent YoY decline in Q1 2017.

The Real Estate, Healthcare and Materials sectors are predicted to lead the growth in APAC M&A announcements in 2H 2017.

## Europe, the Middle East & Africa

In EMEA, according to the latest Intralinks Deal Flow Predictor data, early-stage M&A activity in Q2 2017 increased by 9 percent YoY. At the same time, according to Thomson Reuters, the number of announced M&A deals in EMEA in Q2 2017 fell by 6 percent YoY. Based on this data, our predictive model is forecasting that the number of announced M&A deals in EMEA in FY2017 will fall by around 1 percent YoY.

In EMEA, growth in early-stage M&A activity is being driven by the peripheral economies of Eastern Europe, the Middle East & North Africa, Iberia and Italy, with the three largest M&A markets – the UK, Germany and France – showing subdued or negative growth. Early-stage M&A activity in Q2 2017 grew by just 2 percent YoY in the UK, by 4 percent YoY in Germany and fell by 7 percent YoY in France.

While political risk in continental Europe appears to have diminished following the success of the centrist Emmanuel Macron in the May and June French presidential and legislative elections, the opposite is the case in the UK. UK prime minister Theresa May's ill-judged calling of a snap general election in June has left her at the head of a minority government, reliant on the support of a right-wing party from the province of Northern Ireland for a fragile parliamentary majority. The UK government also appears beset by internal divisions over Brexit, with its leading members openly sniping at each other through media briefings. The impression of a chaotic start to the beginning of Brexit negotiations with the EU, with the UK government's position on many key issues seemingly still unclear almost a year after the referendum result, has left many UK-based businesses aghast.

## Latin America

In LATAM, according to the latest Intralinks Deal Flow Predictor data, early-stage M&A activity in Q2 2017 increased by 10 percent YoY. At the same time, according to Thomson Reuters, the number of announced M&A deals in LATAM in Q2 2017 rose by 7 percent YoY. Based on this data, our predictive model is forecasting that the number of announced M&A deals in LATAM in FY2017 will increase by around 7 percent YoY.

Early-stage M&A activity in LATAM has now increased YoY for three consecutive quarters, as the region's first and third largest economies, Brazil and Argentina, returned to economic growth in 2017 after deep recessions, and economic growth in Mexico continued to improve on the back of the government's reform program for the country's key energy sector.

## North America

In NA, according to the latest Intralinks Deal Flow Predictor data, early-stage M&A activity in Q2 2017 fell by 3 percent YoY. At the same time, according to Thomson Reuters, the number of announced M&A deals in NA in Q2 2017 rose by 21 percent YoY. Based on this data, our predictive model is forecasting that the number of announced M&A deals in NA in FY2017 will increase by around 10 percent YoY.

Despite the significant increase in the number of announced M&A deals in Q2 2017, the drop in early-stage deal activity could point to an increase in concerns by dealmakers over the tightening US interest rate cycle. The US is unique among the major advanced economies in having embarked on an interest rate tightening cycle in December 2015, with four interest rate rises in the past 18 months, despite limited evidence of inflationary pressures in the US economy.

The euphoric increase in US M&A announcements since the election of President Donald Trump, predicated on the assumption of a fiscal stimulus boost to the US economy and massive infrastructure investments promised by President Trump during his election campaign, may prove short-lived. A failure by the Trump administration and Republicans in Congress to advance tax reform and infrastructure plans, however, led the International Monetary Fund last month to downgrade its predictions for US economic growth this year and next to 2.1 percent from 2.3 percent for 2017 and 2.5 percent for 2018.

Our YoY growth predictions for the number of announced M&A deals in FY2017



## APAC

Mid-point forecast: +11%  
High forecast: +13%  
Low forecast: +8%



## EMEA

Mid-point forecast: -1%  
High forecast: +1%  
Low forecast: -3%



## LATAM

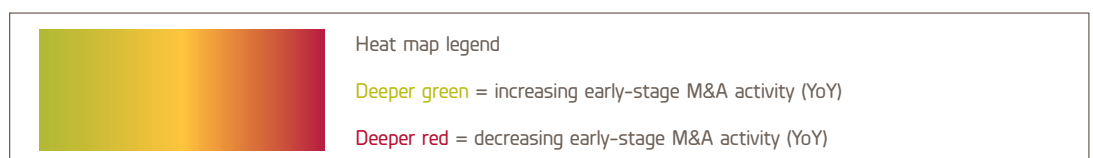
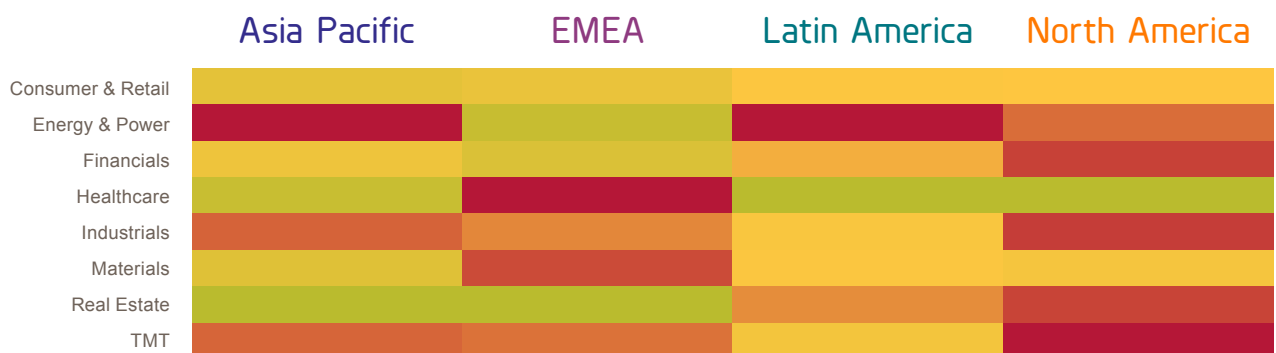
Mid-point forecast: +7%  
High forecast: +13%  
Low forecast: +1%



## NA

Mid-point forecast: +10%  
High forecast: +13%  
Low forecast: +7%

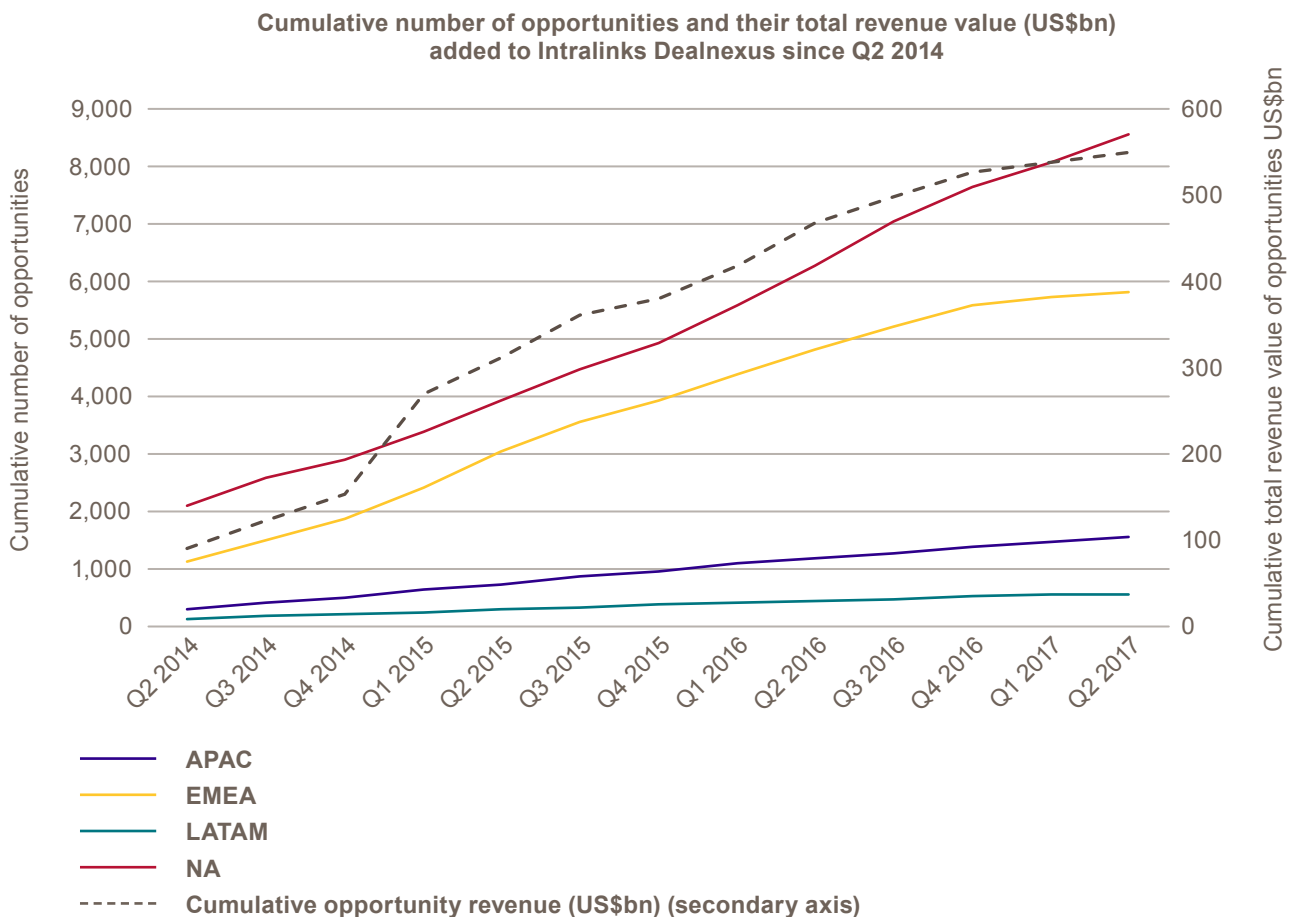
## Regional sector heat map: Our prediction for growth in M&A deal announcements over the next six months



The Intralinks Dealnexus Mid-Market Monitor provides a quarterly snapshot of new, actionable global M&A opportunities created and securely marketed in Q2 2017 on Intralinks Dealnexus. Intralinks Dealnexus is the largest global online deal sourcing and M&A social network, exclusively for M&A professionals, with over 14,700 members from advisors, private equity (PE) and venture capital (VC) firms, corporates, family offices and lenders.

The chart below shows the cumulative number of M&A opportunities, and their total revenue value, added to Intralinks Dealnexus since Q2 2014, highlighting the growing number of advisors, corporates, and PE and VC firms 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, created in Q2 2017, on the Intralinks Dealnexus public deal marketplace.

For more information on how Intralinks Dealnexus can improve your M&A deal flow, and to sign up for a trial account, please visit [www.intralinks.com/solutions/deal-sourcing-and-marketing](http://www.intralinks.com/solutions/deal-sourcing-and-marketing).



## APAC

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Consumer Staples   Edible Oils	280	60
Information Technology   Telecommunication Services   Communications Equipment   Diversified Telecommunication Services	250	7.5
Information Technology   Software and Services	156	6.5
Information Technology   Electronic Manufacturing Services	107	9
Commercial and Professional Services   Industrials   Security and Alarm Services   Commercial Construction and Engineering   Construction Support Services   Electrical Components and Equipment	100	10

## LATAM

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Utilities   Electric Utilities   Multi-Utilities	200	80
Consumer Staples   Food Retail   Hypermarkets and Super Centers	40.5	1.8
Industrials   Construction and Engineering	35.5	7.8
Healthcare Equipment and Services   Healthcare Services   Hospitals and Healthcare Centers	30	5
Consumer Staples   Dairy Products and Eggs   Food, Beverage and Tobacco	29	3.5

## EMEA

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Consumer Staples   Packaged Foods and Meats	444	88.8
Industrials   Information Technology   Electrical Components and Equipment   Electronic Components   Semiconductor Equipment   Semiconductors   Technology Distributors	148.2	10.9
Healthcare Equipment and Services   Hospitals and Healthcare Centers   Medical Doctor Specialist Services   Medical Equipment	100	20
Materials   Chemicals   Precious Metals and Minerals	100	20
Consumer Durables and Apparel   Information Technology   Retailing   Consumer Electronics   Technology Distributors   Consumer Electronics Stores	62	1.8

## NA

INDUSTRIES	Revenue (US\$m)	EBITDA (US\$m)
Consumer Staples   Food Distributors   Meats, Meat Processing and Meat Related Products	350.3	31.6
Consumer Durables and Apparel   Industrials   Retailing   Home Furnishings   Flooring   Building Product Distribution   Construction Material Distribution	201.6	15.8
Consumer Services   Restaurants	175	17.5
Consumer Services   Gaming Operations	150	25
Materials   Retailing   Fertilizers and Agricultural Chemicals   Chemical Distribution	150	3.5

<sup>5</sup> Revenue up to US\$500m.



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facilitating over  
US\$31.3+ trillion in  
transactions



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# Spotlight: Cybersecurity and its impact on M&A transactions



**Matt Wells**

Director, Strategy & Product Marketing  
Intralinks

Cybersecurity has become a hot topic in M&A circles over the past few months and the concern over the impact of breaches on deals will only gather pace in the wake of the Yahoo/Verizon transaction. More on that later. Deliberate cybersecurity leaks and hacks can jeopardize, expose or stall the M&A process and, most importantly, they can impact deal valuations due to the accountability and reputational issues assumed by the buyer.

Looking through the business pages over the past few months, one sees a number of high-profile cybersecurity-related incidents that have impacted an ongoing M&A process.

In some cases, the issue is mainly of a “gossipy” or reputational nature. Months before the US cloud computing company Salesforce.com showed an interest in social media network Twitter, a list of Salesforce.com’s other potential M&A targets – none of which was Twitter<sup>6</sup> – came to light as a result of an email hack. While it is fair to say that most companies will have such a list, few have to suffer the indignity of that list being made public.

However, cybersecurity issues can have direct financial implications. In July 2016, US telecommunications giant Verizon agreed to buy Yahoo’s core internet business for US\$4.8 billion. When a cyber leak at Yahoo dating from 2013 came to light that compromised the data of more than 1 billion accounts, making it the largest known such incident in history, Verizon demanded better deal terms.<sup>7</sup>

In another situation, Australian telecommunications firm Telstra found itself having to foot the bill for a hack at undersea cable company Pacnet, which Telstra acquired after the incident. Pacnet’s corporate information technology network, email and other business management systems had been accessed by an unauthorized third party several weeks before the deal was completed.<sup>8</sup>

A key question for M&A practitioners must be to know what impact a big data leak might have on the valuation of a target company, especially if it leads to buyers dropping out. The results of a recent worldwide survey of M&A dealmakers by Intralinks<sup>9</sup> suggest that deal values could significantly decrease if there are data breaches at a target company, meaning companies need to do everything in their power to preserve deal value as data privacy regulations and security threats mount.<sup>10</sup>

<sup>[6]</sup> <http://www.wsj.com/articles/salesforces-m-a-target-list-excluded-twitter-1476834470?mod=djemalertDEALS>

<sup>[7]</sup> <http://fortune.com/2016/12/16/yahoo-hack-verizon-deal/>

<sup>[8]</sup> <http://www.reuters.com/article/us-telstra-pacnet-cybercrime-idUSKBN0050WM20150520>

<sup>[9]</sup> Intralinks Global M&A Sentiment Survey conducted during April 3-17 2017, received 3,182 responses

<sup>[10]</sup> <https://blogs.intralinks.com/2017/04/3000-dealmakers-say-ma-activity/>

Worldwide, 24 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, twice as many as the number of respondents who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 48 percent of dealmakers who responded to the Intralinks survey said that the bidder would likely reduce its valuation of the target by between 5 percent and 20 percent, and 19 percent of respondents thought the bidder would walk away and not pursue the transaction.

In APAC, 26 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, compared with 9 percent who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 40 percent of respondents thought the bidder likely to reduce its valuation of the target by between 5 percent and 20 percent, and 24% thought the bidder would walk away. In Japan, 33 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, compared with 8 percent who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 32 percent of Japanese respondents thought the bidder likely to reduce its valuation of the target by between 5 percent and 20 percent, and 35% thought the bidder would walk away.

In EMEA, 23 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, compared with 12 percent who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 45 percent of respondents thought the bidder likely to reduce its valuation of the target by between 5 percent and 20 percent, and 21 percent of respondents thought the bidder would walk away.

In LATAM, 19 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, compared with 26 percent who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 42 percent of respondents thought the bidder likely to reduce its valuation of the target by between 5 percent and 20 percent, and 20 percent of respondents thought the bidder would walk away.

In NA, 25 percent of dealmakers who responded to the Intralinks survey expected more deals to fail because of data breaches or cybersecurity issues over the next six months compared to the previous six months, compared with 12 percent who thought fewer deals would fail because of such issues. If there is a data breach or cybersecurity issue at a target company, 55 percent of respondents thought the bidder would likely reduce its valuation of the target by between 5 percent and 20 percent, and 15 percent of respondents thought the bidder would walk away.

To combat the threats to M&A processes from cybersecurity-related issues, more and more M&A practitioners are employing external cybersecurity experts to provide them with peace of mind and reassurance and to evaluate the target's cybersecurity measures as part of the due diligence process.<sup>11</sup>

As a result, the due diligence process is changing. We predict that, over the coming years, high-profile data breaches, combined with pending data privacy regulations which put higher financial penalties on data breaches, such as the EU's General Data Protection Regulation ("GDPR"), will result in the scope of M&A due diligence being significantly widened to cover not just the usual legal, financial, commercial, environmental and HR aspects but also to create a new "digital due diligence" or "cybersecurity due diligence".

The adoption of the GDPR will play a crucial role in enforcing cybersecurity to a standardised level across the European Union. Any global company that holds personal data of EU citizens will need to comply. It comes into effect in May 2018. The fines for non-compliance can be up to 4 percent of annual turnover in the event of, for example, a data breach. In general, all companies have to handle personal information. If a target company does not have appropriate technical and organisational measures in place to protect personal information, it could be subject to large potential fines. Acquirers need to do appropriate cybersecurity due diligence on the target otherwise they could be taking on a big additional risk.

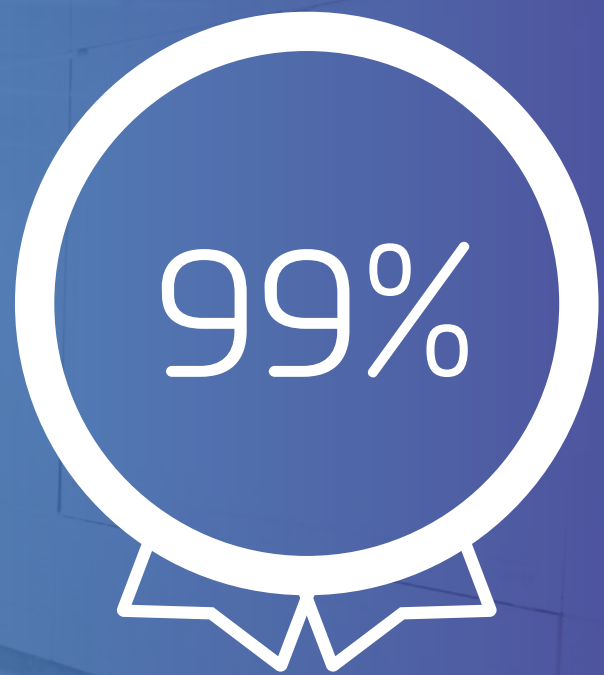
So how does one conduct "digital due diligence"? What do advisors and corporate development teams need to be aware of as cybersecurity attracts more scrutiny? If you are the buyer, you will want assurances that the target has taken appropriate steps to protect confidential information against breaches and considered upcoming data privacy regulations. You will also need to conduct cybersecurity risk assessments of the target. If you are a target, the question is how do you make this easier for the buyer? What should you provide at a basic level? What could you offer? Targets will need to consider cybersecurity as part of any vendor due diligence process.

There is no denying that an assessment of a target's cybersecurity readiness will over the next few years become a key aspect of any M&A due diligence process.

<sup>[11]</sup> <https://www.bloomberg.com/news/articles/2017-06-26/bankers-are-hiring-security-experts-to-help-get-deals-done>



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**Mr. Phillip Lovett**

Managing Director, Credit & Structuring for UK Financial Sponsors  
at Royal Bank of Scotland

For this issue of the [Intralinks Deal Flow Predictor](#), Intralinks (IL) interviewed Mr. Phillip Lovett (PL), Managing Director, Credit & Structuring for UK Financial Sponsors at Royal Bank of Scotland (RBS), on the current state of mid-market financial sponsor financing.

Mr. Lovett joined RBS as graduate in 1997, and has spent 16 years working in the leveraged buy-out industry, with roles covering origination, transaction execution and debt capital markets. In this time he has been involved in 200 completed transactions. For the last eight years Mr. Lovett has undertaken a credit and structuring role as an MD in the UK mid-market buy-out team, working with deal teams across the UK to analyse, structure, negotiate and ultimately credit approve the transactions. Most recently Mr. Lovett has negotiated and implemented the RBS direct lending partnerships with AIG, Hermes and M&G, and was also instrumental in setting up the Unitranche Alliance arrangements with Barings, Alcentra and Five Arrows credit solutions.

**IL:** *Cheap financing is one of the reasons behind the current M&A boom. What does borrowing currently cost? Can you put this in a historic context?*

**PL:** The mid-market's financing needs are currently met by two sources – pure debt from traditional banks and debt funds providing a unitranche debt product that is non-amortising with higher leverage. Debt funds are a relatively new entrant to the market, emerging in the second half of 2013. Up until 2007, banks were providing three tranches of loans: A tranche at 225 basis points (bp), B tranche at 275bp and C tranche at 325bp; the fee would work out at around 225bp. The point of competition between providers was the overall leverage. The mid-market – which we define as businesses with an enterprise value of up to GBP 300m – was dominated by arranging banks or clubs of banks, with RBS, HSBC and Lloyds being the only proper lenders to the mid-market. On the funds side, we saw few funds active and those were typically focussed on mezzanine. As the relative yield for illiquid leveraged loans became more and more attractive, new players emerged, creating greater competitive tension. Since 2013 in particular, we have seen a large number of debt funds, their money coming out of long-term committed capital such as insurance or pension funds. They are primarily driven by a quest for yield in an overall low interest rate environment. Early players in the field were Ares, Barings, ICG and Alcentra (prior to 2007) and, following the emergence of a large number of new funds since 2013, this has resulted in pricing going down, leverage increasing and more borrower-friendly terms and conditions. It has now become a very competitive market, particularly over the past year. So, borrowing is attractive!

***IL: What are the typical conditions attached to financing and have these changed recently?***

**PL:** Well, up until 2007 we were not dealing with unitranches. We were looking at senior and mezzanine financing. Senior debt always had an amortising tranche while mezzanine was always a bullet loan, repayable after the last tranche of senior debt. Senior debt usually had three financial covenants attached to it, comprising an interest cover covenant, a leverage covenant and a cash flow covenant. It gave both borrowers and lenders an appropriate balance between flexibility to make decisions and control – allowing acquisitions and keeping an eye on overall indebtedness. Equity cornerstones could be as low as 30 percent, but leverage was not dissimilar to the current market. Since then the situation has changed, driven by the emergence of debt funds providing unitranches. Now, the senior debt terms and conditions have moved in the borrowers' favour, with low/nil amortisation, one or two financial covenants and greater flexibility – due to increased competition among lenders.

***IL: Who are the primary sources of funding?***

**PL:** For mid-market senior debt there is HSBC, RBS and Lloyds alongside a range of other banks. We also see senior debt partnerships between banks and pension & insurance funds. At RBS, we have exclusive partnerships with AIG, M&G and Hermes. These partnerships allow RBS to coordinate and front a much larger senior debt quantum than RBS on a standalone basis. This also makes it easier for borrowers to execute the deals, due to the need for fewer club banks. In terms of debt funds, we believe that there are around 70 active in Europe, with 48 having completed at least one UK transaction last year. These range from the large megafunds such as ICG, Alcentra, Ares, Barings, KKR and CVC Credit Partners – through to a large number of funds with £400 million to £700 million to deploy. Then we see combined bank and junior debt providers, working together with the permission of the borrower to provide synthetic unitranche products at very competitive pricing. There is no denying that the availability of financing from both debt and equity providers is driving valuations and debt quantum in the M&A market, with a huge amount of capital chasing a limited number of deals.

***IL: What are the pros and cons of the different financing instruments and providers?***

**PL:** Mezzanine products have not been used much recently, so really at the moment, we are looking at senior debt or unitranche products. I think the biggest advantage of working with a bank is relationships and proven track records. We at RBS have a 20-year, uninterrupted track record of lending to support mid-market private equity sponsored buy-outs. We know them and they know us, and understand that as a bank we want to sustain our relationship with our customers across their lifecycle, which may include a period of sponsor ownership. This is not just about gathering assets, it is about relationship banking. We understand the life cycle of a business and that it is not always smooth. The challenge for a relationship with a debt fund is that they do not always have a proven track record and we have not always seen how they will deal with underperformance. Also, the current cost of senior debt can be relatively more attractive versus a unitranche offering.

**IL:** *Are different acquirers treated differently? Private equity versus corporates? Serial buyers versus novices? Are different countries/regions being treated differently?*

**PL:** In terms of the M&A process, I wouldn't say so – all go into the same competitive situation. In terms of the process to structure senior debt, what we are looking for is a good steward for our capital.

**IL:** *Are there particular sectors that struggle to secure funding?*

**PL:** The more cyclical ones and those with historic credit underperformance – yes they will struggle, even in this environment of relatively available funding.

**IL:** *How will the funding environment change over the next six months to a year?*

**PL:** Right now, the funding environment is stable – after the massive influx of funding with many new players coming onto the scene, things have settled down. In the future, I think a number of smaller debt funds will team up with others or disappear altogether; larger funds will prevail over smaller ones. I do expect a step change at some point. In terms of the supply of mid-market M&A deals, it is currently very low, following a glut in activity in H2 2016. However, because the mid-market is dominated by private equity ownership, their desire to exit their investments after 2-4 years will yield a recovery in M&A deal supply. Overall, the mid-market is characterised by a steady long-term supply of M&A transactions. Funding will remain available! However, issues such as Brexit, North Korea, Russia and Syria, all can have an impact on sentiment.

**IL:** *Thank you, Phillip, for sharing your insights with us.*

**PL:** It has been my pleasure.



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

To verify the predictive nature of the 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 Analysis & Inference ("A&I"), an independent statistical consulting and data science research firm, to assess, replicate and evaluate this model. A&I's analysis showed that our prediction model has a very high level of statistical significance, with a more than 99.9 percent probability that the 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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## About Intralinks

Intralinks, Inc., a 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](http://www.intralinks.com) and [www.synchronoss.com](http://www.synchronoss.com).

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