



I. CONTINUED MOMENTUM

A surge of end of year merger and acquisition activity in 2016 has continued through the first quarter of 2017. The political uncertainty of Brexit and the U.S. Elections that caused a depression in M&A activity through the first half of the 2016 has subsided. In Q4 2016, over \$1.2 trillion of transactions were announced, led by US based acquirer AT&T's \$109 billion announced merger with Time Warner and British American Tobacco's \$63 billion announced acquisition of Reynolds American Inc, marking one of the largest UK/USA transactions.

Theresa May's call for a General Election in Britain on June 8th has been well received by markets and businesses alike, as optimism for a smoother Brexit increases with the strong likelihood that May's Conservative Party will be victorious. The anticipated election result of a substantially larger majority for Theresa May in the House of Commons will give Britain a much stronger hand in the Brexit negotiations.

First quarter M&A activity has increased to \$777 billion in 2017, an increase of 8% year-over-year from \$720 billion in 2016. During the first quarter of 2017, every region with the exception of the United States and Canada saw a positive year-over-year increase. Europe posted the highest increase in total announced transaction value in 2017, with an increase of over \$23 billion; the second highest increase was in the Asia/Pacific region (\$7 billion). The largest announced United States-European transactions during the first quarter of 2017 were the \$28.8 billion acquisition of Actelion Ltd (Switzerland) by Johnson & Johnson (United States) and the \$20 billion announced acquisition of Mead Johnson Nutrition Company (United States) by Reckitt Benckiser Group Plc (United Kingdom). The averaged announced transaction size during this time period was \$145 million, suggesting that firms are focusing on smaller mid-market deals (\$100-500 million) rather than large complex deals.

Chart I: 2016 Announced M&A Activity by Quarter

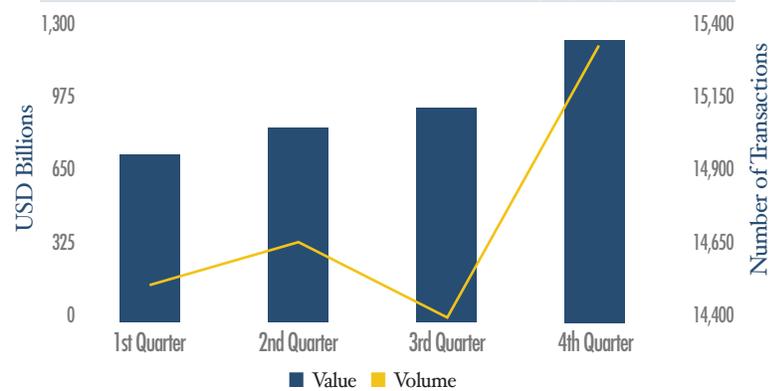


Table I: 1st Quarter Global M&A Activity 2015-2017

Target Company Region	2015		2016			2017		
	Value (\$bn)	Volume	Value (\$bn)	Volume	YOY%	Value (\$bn)	Volume	YOY%
Asia / Pacific	217	2,748	184	3,559	-15%	191	3,288	4%
United States and Canada	432	5,680	317	5,215	-27%	310	5,239	-2%
Europe	162	4,653	189	4,931	17%	212	4,917	12%
Africa / Middle East	12	452	16	431	29%	30	462	90%
Latin America and Caribbean	24	427	15	395	-38%	33	372	124%
Total:	847	13,960	721	14,531	-15%	777	14,278	8%

II. US-EUROPE TRANSATLANTIC M&A ACTIVITY

There has been a sharp increase in the total announced transaction deal value in US firms acquiring European companies. In the first quarter of 2017, there was over \$72 billion in announced US firms acquiring European companies. This is an increase of nearly 600% from the first quarter of 2016 and nearly 150% increase from 2015. As organic growth in the United States stagnates for companies, strategic acquirers are increasingly turning to European targets to expand global footprints.

One of the major drivers of increased US-Europe transatlantic deal value is the decrease in the GBP/USD and the EUR/USD exchange rate. Since the June 23, 2016 Referendum Vote by the United Kingdom to leave the European Union, the Pound has decreased over 15%, while the Euro has remained near parity over the last nine months. These currency fluctuations have made European Targets more attractive to both US strategic and private equity acquirers. As strategic firms have near record amounts of cash on hand, and dry powder/fundraising approaches records levels, UK and continental European companies will continue to be targets of US firms.

With the initial geopolitical fears of the impact of Brexit quickly subsiding, M&A activity in the UK has continued to be strong. Transactions involving UK Target companies has increased from \$41bn in the first quarter of 2016 to \$66 billion during the first quarter of 2017, an increase of 62%. The UK market continues to be quite active as the UK economy continues to gain momentum. In April, J.P. Morgan revised the UK GDP growth forecast to 1.9% in 2017.

III. CONCLUSIONS

We believe the momentum in the M&A market will continue through 2017. As interest rates remain near record low values in the United Kingdom and United States, despite small increases by the Federal Reserve in the USA, sophisticated acquirers and investors will continue to seek value-added acquisitions more actively in North America and Western Europe. Notably, 8 out of the top 10 global deals by value in Q1 2017 involved either North America or Europe. With the potential for corporate tax reform, easing of antitrust oversight and repatriation of offshore cash balances, US firms will continue to be in a strong position to make further acquisitions and take advantage of value in Western Europe created from the decrease in exchange rates with the Pound and Euro. Furthermore, the increased likelihood of a smoother Brexit has also bolstered optimism in the markets.

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Chart II: 1st Quarter US-Europe M&A Activity 2014-2017

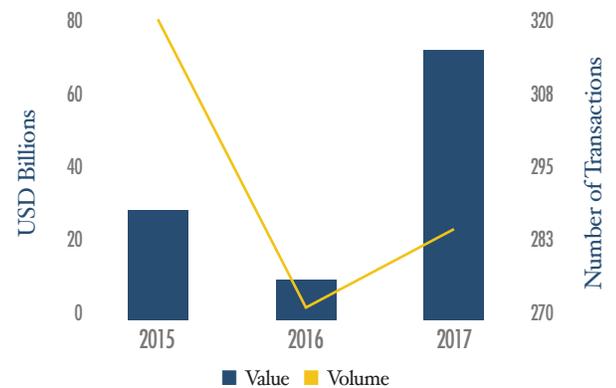


Chart III: USD Exchange Rates 2016-2017

