



RECORD M&A ACTIVITY IN 2014

History will judge 2014 as a year of record results for Mergers & Acquisitions. M&A activity registered the strongest deal making momentum since the LBO boom of 2005 – 2007. Globally, M&A value increased +39.3% in 2014 to \$3.5 trillion from \$2.5 trillion in 2013. The year was also marked by interesting advances in the number of transactions executed.

WINCHESTER INSIGHTS

- Volume advanced +12.1% to 50,429 transactions.
- 37 transactions exceeded US\$10 billion in value.
- 2014 M&A value was the third highest level reported since 2001.
- Average transaction value increased +24% from US\$56.3 million to US\$69.9 million.
- Megadeals (defined as transactions with a total value above US\$500 million) increased +19% to 1,009 transactions.
- Total value of all megadeals was US\$2.57 trillion or 73% of total deal value in 2014.
- Healthcare was a top performer in the megadeal segment, achieving a robust +61.6% growth in volume to 97 transactions.
- Financials maintained their top spot by volume in the megadeal segment with a total of 284 transactions.

FOCUS: INVERSIONS

US inversions continued to be a driver of major transatlantic M&A as US companies sought to merge with UK and Irish companies in order to relocate and capture significant tax savings. According to research, 55% of all inversion deal value since 1996 was transacted in 2014.

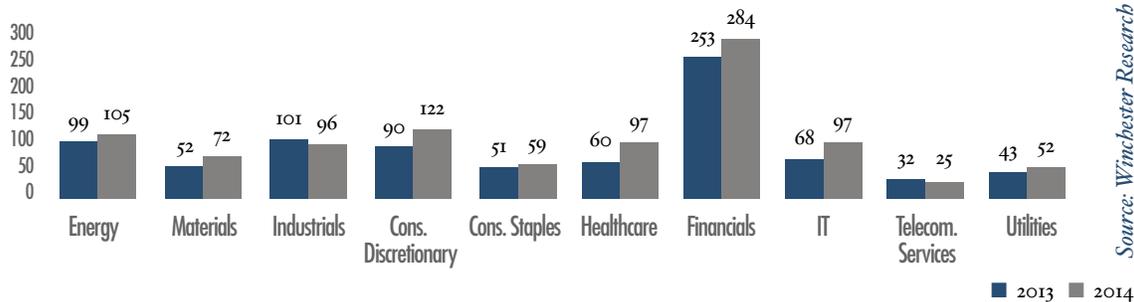
The major inversion driven transactions announced in 2014 were Medtronic's \$48 billion offer for Covidien, Actavis' US\$25.5 billion offer for Forest Labs, Burger King's US\$13.5 billion offer for Tim Hortons, and Mallinckrodt's US\$5.6 billion offer for Questcor.

Following the wave of inversion transactions proposed by US companies, the US Treasury attempted to limit the benefits of inversions by limiting the use of Hopscotch loans, which provide companies an avenue to transfer profits from offshore subsidiaries to parent companies.

Many analysts believed the inversion debate would stimulate Congress to act on corporate tax reform; however, action seems unlikely until after the 2016 presidential election.



Chart I: Number of Transactions above USD \$500m

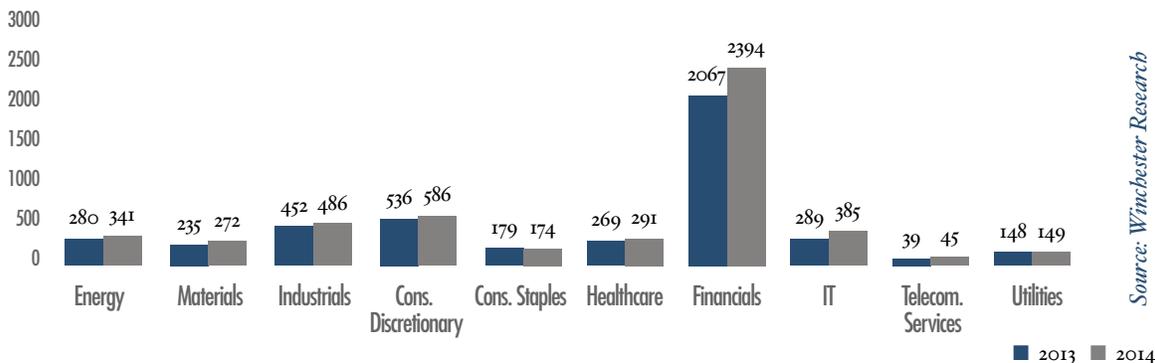


Top global deals by value included: Actavis Plc’s US\$69.5 billion offer for Allergan Inc.; Comcast Corporation’s US\$69.2 billion offer for Time Warner Cable; AT&T’s US\$68.9 billion offer for DIRECTV, which is anticipated to complete in the spring of this year; Kinder Morgan’s US\$63 billion acquisition of Kinder Morgan Energy Partners; and Medtronic’s US\$48 billion offer for Covidien.

WINCHESTER INSIGHTS: HIGHER MID-MARKET ACTIVITY

Transactions in the mid-market (deals valued between US\$50 and US\$500 million) increased significantly by volume in 2014 to 5,123 total transactions with a total value of US\$818.4 billion. The value of these mid-market transactions constituted 23.2% of the total deal value and 10.2% of total volume in 2014. Mid-market transaction volume in the Consumer Staples sector declined -2.8% in 2014 to 174, but transaction volume in all other sectors increased. Financials maintained its top spot by volume in the mid-market segment this year with a total of 2,394 transactions.

Chart II: Global M&A Mid-Market Volume (Deals between US\$50-500mm)



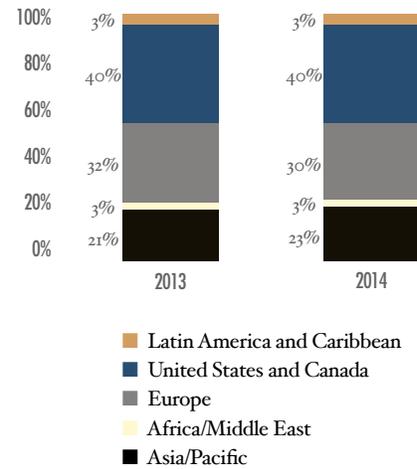


MOST ACTIVE M&A MARKETS

All geographic regions experienced increases in both the volume and total value of M&A transactions in 2014. The year was also marked by interesting advances in certain geographic segments:

- North America remained the most active market in 2014, constituting 40% of global transaction volume and 48.3% of transaction value.
- North American deal value increased +40% to US\$1.7 trillion, and volume advanced +11.4% to 20,209 transactions.
- Europe witnessed a -2% decline in total share of global deal volume.
- Europe’s total deal value gained +39.6% to US\$954 billion, and volume on a nominal basis increased +5% to 15,313 transactions.
- Asia / Pacific achieved a +2% increase in total share of global deal volume.
- Total deal value in the Asia / Pacific region advanced by +29% to US\$610 billion, and volume experienced a robust +24.2% increase to 9,403 transactions.

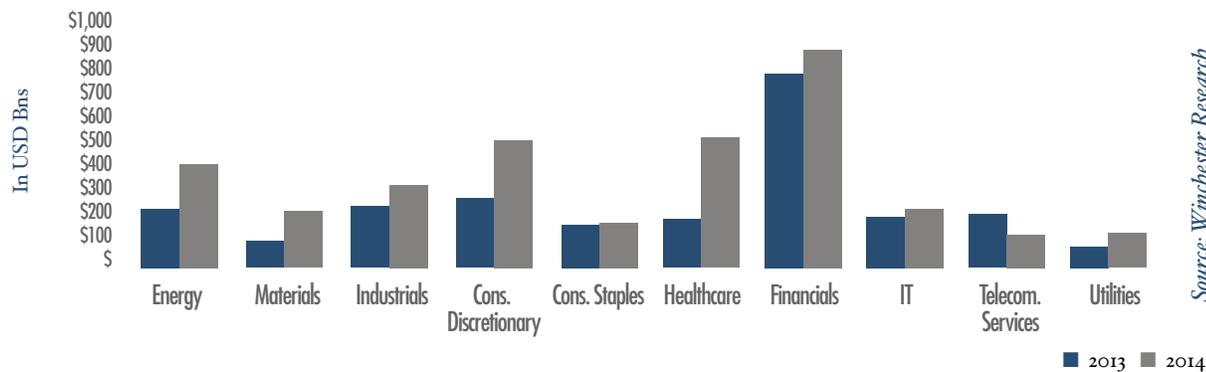
Chart III: M&A Geographic Concentration by Volume



Source: Winchester Research

Africa / Middle East recorded the largest regional percentage increase in transaction value in 2014, with a 73.8% gain to US\$104 billion. Although M&A in Africa / Middle East is coming off a small base, it has recently shown strong growth and this trend is expected to continue as the region begins to focus more on consumer related investments.

Chart IV: Industry Breakdown of Global M&A by Deal Value



Source: Winchester Research



MOST ACTIVE INDUSTRY SEGMENTS

Consumer

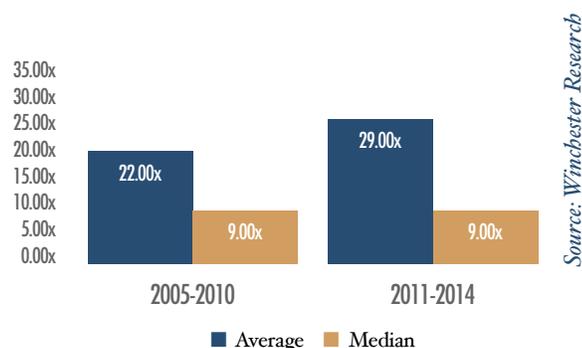
Globally, M&A in the consumer sector posted strong results. Consumer Discretionary volume and value increased +9.4% and +80.9% respectively. Value growth was driven primarily by a select group of mega-transactions including:

- Comcast's US\$69 billion offer for Time Warner Cable
- AT&T's US\$68.9 billion offer for DIRECTV
- ZF Friedrichshafen AG's US\$14.5 billion offer for TRW Automotive Holdings Corp.
- Restaurant Brands International Inc.'s US\$13.5 billion offer for Tim Hortons Inc.

Spirits

The transaction values and EBITDA valuation multiples in the spirits sub-sector grew +375% YoY in 2014. Overall transaction value rose +1,944% to US\$18.5 billion, driven primarily by Suntory's US\$16 billion acquisition of Jim Beam. With the Suntory transaction removed from the data set the spirits sub-sector transaction value increased +177%, a significant figure. The year was marked by a continued increase in transaction multiples:

Spirits Sector TEV/EBITDA Multiples



- TEV / EBITDA multiples grew to 27.7x in 2014 from 5.8x in 2013.
- Between 2005 and 2010 the average and median TEV / EBITDA multiples stood at 22x and 9x respectively.
- From 2011 to 2014 the average and median TEV / EBITDA multiples stood at 29x and 9x.
- Winchester Capital expects the trend of rising average multiples to continue into 2015 as more companies are acquiring spirits brands in the premium and above categories.

Industrials, Electronics Components, Chemicals

Total transaction value increased to US\$422 billion in 2014, from US\$281 billion the prior year representing a +50% increase. Top transactions in these sectors include:

- Cobham plc's US\$1.5 billion acquisition of Aeroflex Holding Corp.
- Seagate Technology's US\$450 million acquisition of LSI Corporation's accelerated solutions division and flash assets
- CITIC Pacific Limited's US\$35 billion acquisition of CITIC Limited
- MSA Shine Global Family Office's US\$25.6 billion acquisition of ZIKA Industries
- CSR Corporation's \$18.8 billion offer for China CNR Corporation
- Merck's US\$17.4 billion offer for Sigma-Aldrich Corporation
- Albemarle Corporation's US\$7.6 billion acquisition of Rockwood Holdings



Private Equity

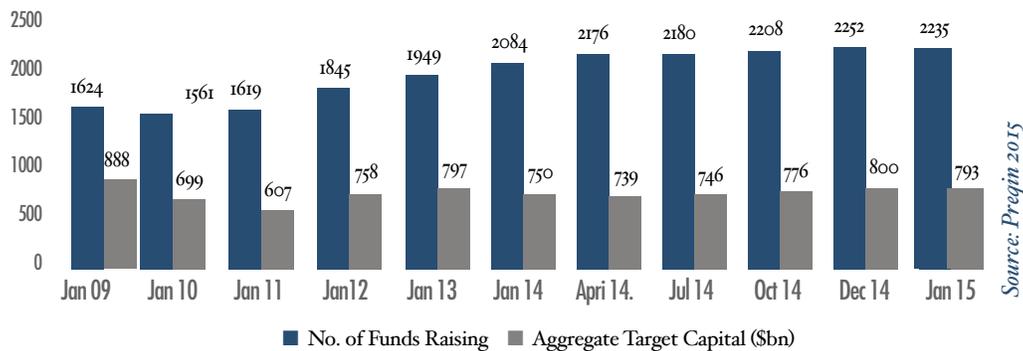
As of January 2015, 2,235 funds were being raised with a total target value of US\$793 billion, and total dry powder in the market was US\$1.22 trillion. Despite this large cash pile, PE funds were more active sellers than buyers in 2014:

- PE exits totaled US\$1.08 trillion in value in 2014, up from US\$642 billion in 2013.
- PE acquisitions amounted to US\$486 billion, increasing from US\$435 billion in 2013.

Top transactions include:

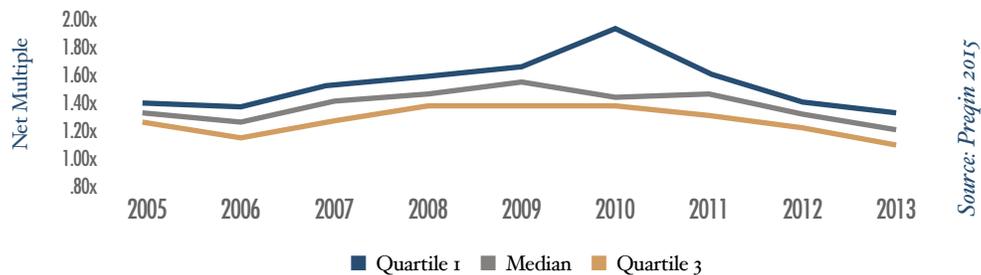
- Alibaba's US\$25 billion IPO. Leading investors in Alibaba were Silver Lake Partners, General Atlantic and Insight Venture Partners.
- The sale of Alliance Boots GmbH to Walgreens for US\$25 billion.
- 3G Capital's financial support for Burger King's \$13.5 billion offer for Tim Horton's.

Chart VI: Fundraising Over Time January 2009-January 2015



The increased amount of funds in progress combined with existing uninvested capital could make PE returns in the near future more elusive. Due to these conditions, performance spreads between 1st and 3rd Quartile managers have started to converge as can be evidenced in Chart VII shown below.

Chart VII: Q1-Q3 Private Equity Returns (2005-2013)





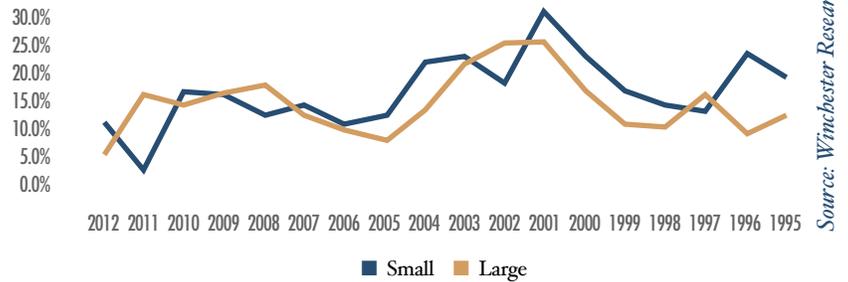
Winchester Insights for 2015

The combination of falling interest rates, large cash stockpiles on corporate and private equity balance sheets, and increased economic activity in the North American and Asian markets will propel the M&A market to new highs in 2015. Investors are likely to delay large investment in the Eurozone until the Greek elections are finalized and hostilities in Ukraine subside; however, with the advent of the ECB's US\$70 billion a month QE program Europe may see a quicker recovery than originally expected and could be a top market for M&A activity in H2 2015. We see a continuing resurgence in the mid-market as volume and value continue to rise each year, with financial sector activity continuing to buoy overall activity. In fact our research shows that small buyout funds (under \$400m-\$500m) have outperformed large and mega buyout funds.

Additional Winchester Insights for 2015

- Asset valuations in Europe are expected to decline in H1 2015 due to deflationary pressures, a depreciating currency, and negative macroeconomic trends but will recover in H2 2015 as the ECB implements its QE initiative and additional stimulus programs.
- North America will be the top targeted market for the M&A industry in 2015 by volume and value as it provides the best risk / return profile for global investors.
- Increased levels of capital overhangs, US\$1.22 trillion in dry powder and a low supply of high quality deals will continue to push up valuations in the PE industry and further decrease the performance spread between 1st Quartile and 3rd Quartile managers.

Chart VIII: Median Private Equity Fund IRR by Size



Source: Winchester Research

- The emergence of the megadeal in 2014 and increased interest in inversions by multi-nationals will continue to drive M&A activity in 2015.
- We expect an increase in cross-border activity as large emerging market players look to acquire notable brands and companies in developed markets.
- The energy sector will see increased M&A activity in H1 2015 due to rising loan defaults stemming from declining energy prices. We expect this activity to slow slightly in H2 2015 as energy prices recover from lows.
- The strong desire by strategics to own well-known spirits brands in the premium and above categories will continue to boost valuation multiples in the spirits sector.
- The healthcare sector will see a further increase in megadeal activity as large multi-nationals acquire competitors to increase the scope of product offerings and achieve cost-savings synergies.



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