



GLOBAL MARKET INSIGHT & TRENDS INTERNATIONAL MERGERS & ACQUISITIONS H1 2014

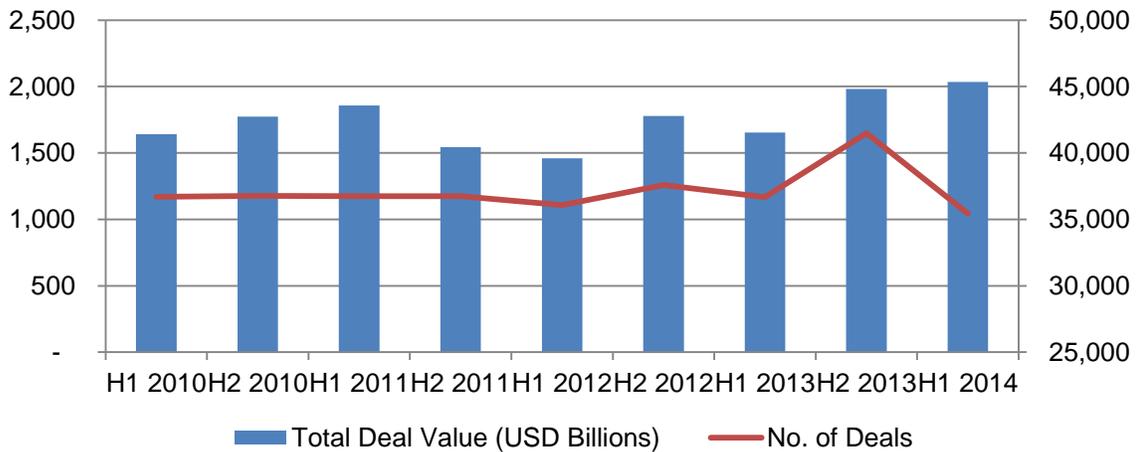
A REMARKABLE YEAR TO DATE

The first half of 2014 proved to be an extraordinary period for global Mergers & Acquisitions. Although the number of deals dipped slightly (to 35,429 from 36,666 a year earlier), the value of global M&A in H1 2014 rose +3% year-over-year to reach US\$2.034 trillion. This amount is higher than the total transaction values recorded in any of the preceding nine half-year periods, i.e. since H1 2010.

Notably, there were 14 high-value transactions that exceeded US\$10 billion and which together accounted for 18% of overall value for the H1 2014 period. The average transaction size increased from US\$45.1 million to US\$57.4 million as a result.

Top global deals by value included (in USD): Comcast’s \$69bn offer for Time Warner Cable; AT&T’s \$67bn offer for DIRECT TV; Medtronic’s \$43bn offer for Covidien; CITIC Pacific’s \$36bn offer for CITIC Ltd; Actavis plc’s \$24bn offer for Forest Laboratories Inc.; Facebook Inc.’s \$19bn offer for WhatsApp Inc.; Novartis’ \$16bn offer for GlaxoSmithKline’s oncology products unit; and Suntory Holdings’ \$16bn offer for Beam, Inc.

Chart I. Global M&A Deals by Volume and Value, H1 2014



Source: Zephyr 2014 H1 Report (BvD)



While our report focuses on the first six months of 2014, it bears mention that Global M&A has by no means slackened its pace since the end of June. Expectations were that summer holidays would affect M&A activity after the second quarter, but over US\$155 billion in announced deal value has taken place in the month of August 2014 alone. In fact, according to the first annual Deloitte M&A trends report, 84% of corporate executives surveyed (and 89% of private equity executives) anticipate a sustained, if not accelerated, pace of M&A activity through H1 2016.

MOST ACTIVE M&A MARKETS

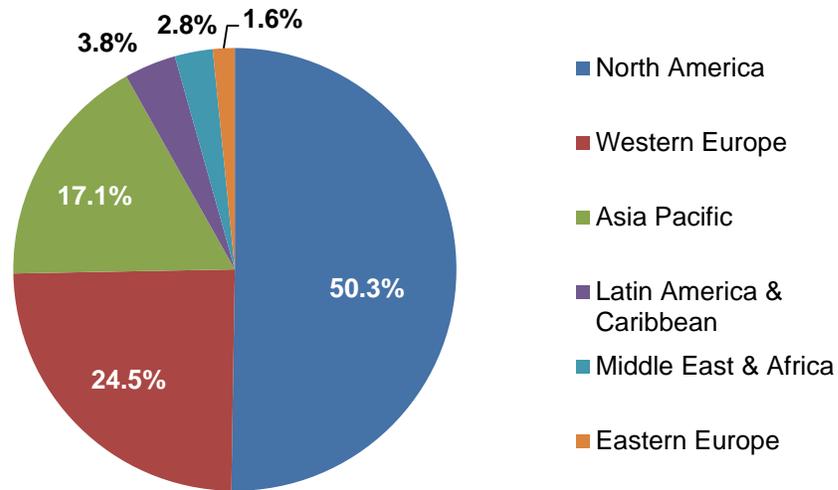
The largest three regional M&A markets experienced a significant increase in deal value in H1 2014 year-over-year. North American deal values were up by +37%, Western Europe’s by +18%, and Asia Pacific’s by over +34%. Of these three dominant regions, however, the North American region was the only one that witnessed an increase in the number of deals (+2.4%), with the number of deals in Western Europe and Asia Pacific falling slightly.

Transaction values in the Middle East declined by -39% and the number of deals shrank by -34% in H1 2014. Russia and Eastern Europe suffered as well. Although the number of deals increased by +21%, deal values in the region fell by over -43%. This can be attributed to continuing political unrest and economic uncertainty in the region.

Latin America recorded the largest regional increase in activity, with 243 deals worth US\$63 billion (source: Mergermarket). This represents a remarkable +62% increase in transaction value from H1 2013 to H1 2014 and was the highest valued half-year since H1 2012 (US\$68 billion, 362 deals). Eighty percent of the deals were announced in Q2 2014.

Also, the value of transactions in Latin America is growing. Deals over US\$1 billion accounted for 62.5% of the aggregate deal value for the Latin American region. In H1 2013 and H1 2012, deals above US\$1 billion had a smaller 40% and 52% share, respectively. This shift towards larger deals is one reason for increased deal values, even though the deal count has decreased from 309 in H1 2013 to 243 in H1 2014.

Chart II: Global M&A Regional Activity by Deal Value, H1 2014



Source: H1 2014 Bloomberg Global M&A Review



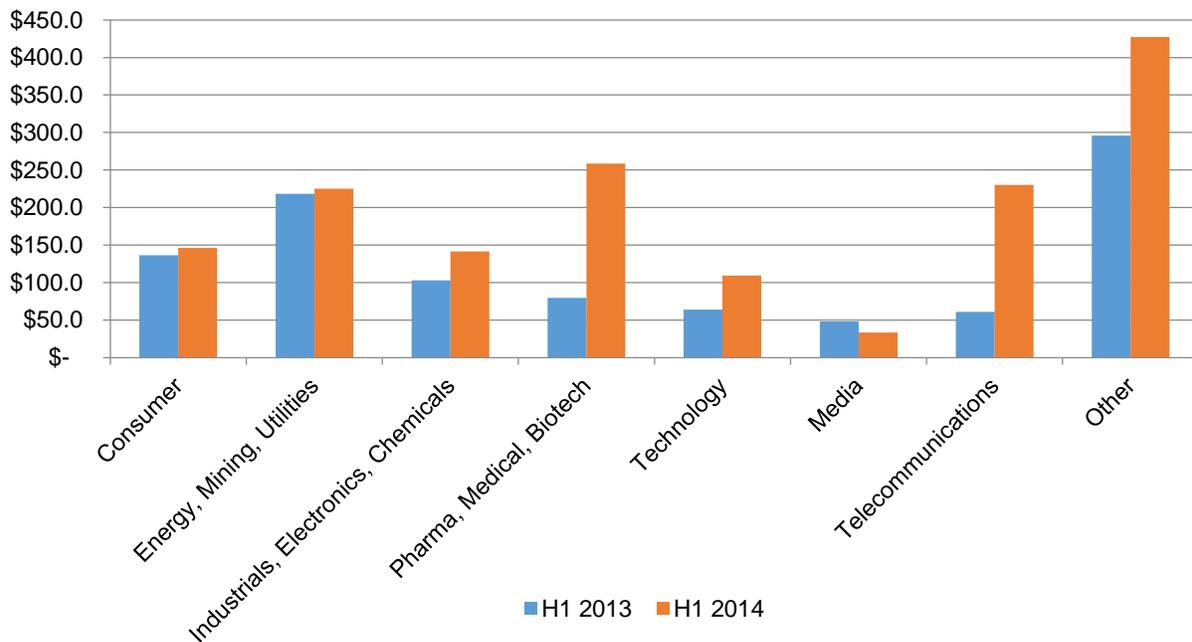
Cross-border activity has been robust as well:

- Cross-border M&A between regions was 81.9% higher in H1 2014 than H1 2013, with deals valued at US\$371.5bn. This was the highest half-year since H2 2007.
- Cross-border M&A between countries accounted for 46.1% of global M&A, the highest half-year on record.

MOST ACTIVE INDUSTRY SEGMENTS

All sectors but Media saw a significant increase in deal value from H1 2013 to H1 2014.

Chart III: Industry Breakdown of Global M&A Deals by Deal Value (USD Billions)



Mergermarket H1 2014 Trend Report

Consumer

On a global basis, consumer sector M&A has been buoyant this year. In Q2 2014, eight multibillion-dollar deals were announced, up from four such deals in Q2 2013 and five in Q1 2014. These include Tyson Foods’ US\$7.7 billion offer for Hillshire Brands, D.E. Master Blenders’ US\$5 billion offer for Mondelez International and Mizkan Holdings’ US\$2.2 billion offer for Unilever’s pasta sauce business, including the Ragu and Bertolli brands.

According to S&P Capital IQ, the consumer discretionary sector remains the top sector for U.S. deal value through August 2014, with US\$239 billion in transactions. In fact, of the top ten announced U.S. consumer discretionary M&A deals announced since 2012, seven have taken place in 2014.

The increased transaction values in the food, beverages and tobacco sub-sector have been particularly explosive. Overall transactions in this sector for the first six months of 2014 were US\$74.7bn, exceeding those of the previous six-month period by +55.7%.



Healthcare

Transaction values in the Pharma/Medical/Biotech sector more than tripled, from US\$79.4bn to US\$258.6bn. Some of the largest deals include Valeant Pharmaceutical's hostile offer of \$US45.9bn for Allergan, Abbvie's US\$54bn merger with Shire, Medtronic's US\$42.9bn offer for Covidien, and Mylan's US\$5.3bn offer to acquire Abbott Laboratories' generic drug business. Other key transactions include Carlyle acquiring Ortho-Clinical Diagnostics for US\$4.0bn, Theravance's spin-off of its Biopharma unit to shareholders for US\$629m and the US\$1.7bn acquisition of ArthroCare by Smith & Nephew.

Industrials, Electronic Components, Chemicals

Total transaction value for the sector increased to US\$141.6bn in H1 2014, from US\$102.7bn in H1 2013. This represents a +38% increase. Electronic components transactions include Vishay Intertechnology's US\$202m acquisition of Capella Microsystems, Orient Microwave Corporation's acquisition of FDK Corporation's microwave business and Murata Electronics North America's US\$469m acquisition of Peregrine Semiconductor Corporation. Industrials deals include General Electric's US\$17bn acquisition of Alstom's energy unit and Carlyle's acquisition of Signode Industrial Group for US\$3.2bn. Chemicals transactions include Kuraray Co.'s acquisition of E.I. DuPont Nemours' glass laminating solutions and Vinyls Division for US\$498m, Minerals Technologies Inc.'s acquisition of Amcol International Corp for US\$1.7bn and PPG Industries' purchase of Consorcio Comex SA for US\$2.3bn. The top deals in 2014 were strategic in nature, with specialization and geographical expansion being key drivers.

Telecommunications

Transaction values in the Telecommunications sector almost quadrupled, from US\$60.8bn to US\$230.3bn. The purchase of Time Warner Cable by Comcast for US\$68.5bn and the acquisition of DIRECTV by AT&T for US\$65.5bn were the two top deals in the sector. This consolidation of telecommunications providers heralds a transformation in the sector that is prompting review by governments and consumers alike.

CONCLUSIONS

The combination of accumulated corporate and private wealth cash positions, prevailing low interest rates and encouraging economic news is bringing greater confidence and activity to the M&A market place. Europe is also recovering quicker than anticipated, with the Greek economy expected to grow for the first time in eight years. This fair weather is forecasted to continue in North America and Europe, which on a combined basis account for approximately 75% of deal value by activity. We see a continuing resurgence in the mid-market, with growth companies building value through cross border acquisitions and joint ventures in order to gain access into global markets. Our next INSIGHT will specifically focus on the 2014 growth of the mid-market sector.

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