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US/UK M&A Deal Monitor, H1 2016 Update

Confidence prevails amidst global uncertainty

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The US/UK M&A Deal Monitor follows trends and analyses underlying driving forces in the most active merger and acquisition arena in the world economy today.

Methodology

Data in the US/UK M&A Deal Monitor are based on deal volumes and values in Thomson One Banker and Deloitte analysis. Deal value calculations are based on M&A deals for which value is disclosed – values are not disclosed for a significant proportion of M&A deals. Volume calculations are based on all announced deals whether or not value is disclosed. Some announced deals included in the data may not proceed to completion. The Deal Monitor includes volume and value data for the most recent 10 quarters; in this edition data run from Q1 2014 to Q2 2016 inclusive.

In this publication, references to Deloitte are references to Deloitte LLP, the UK member firm of DTTL.

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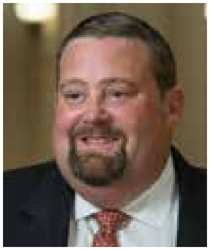
US/UK M&A Deal Monitor: The Brexit Edition

Welcome to the second edition of the US/UK M&A Deal Monitor. The Deal Monitor follows trends and analyses underlying driving forces in the most active merger and acquisition arena in the world economy today. In this issue we consider the impact on US/UK M&A of the UK's decision to leave the European Union. Our data focus on the latest half year of M&A activity between the US and the UK, set in the context of the most recent 10 quarters of M&A activity in the US/UK 'corridor'.

Dealmakers on both sides of the Atlantic received a surprise when the UK voted in late June to leave the European Union. Uncertainty is never a friend to deal flow, and this market volatility coupled with a lack of clarity on the implications of the forthcoming 'Brexit' negotiations, is bound to lead to nervousness among dealmakers. However when we look at the evolution of the US/UK M&A corridor, while there may be uncertainty about what Brexit could mean it is also clear that there is conviction on both sides of the Atlantic when it comes to making cross-border investments, there is a lot more willingness to act in the face of uncertainty.

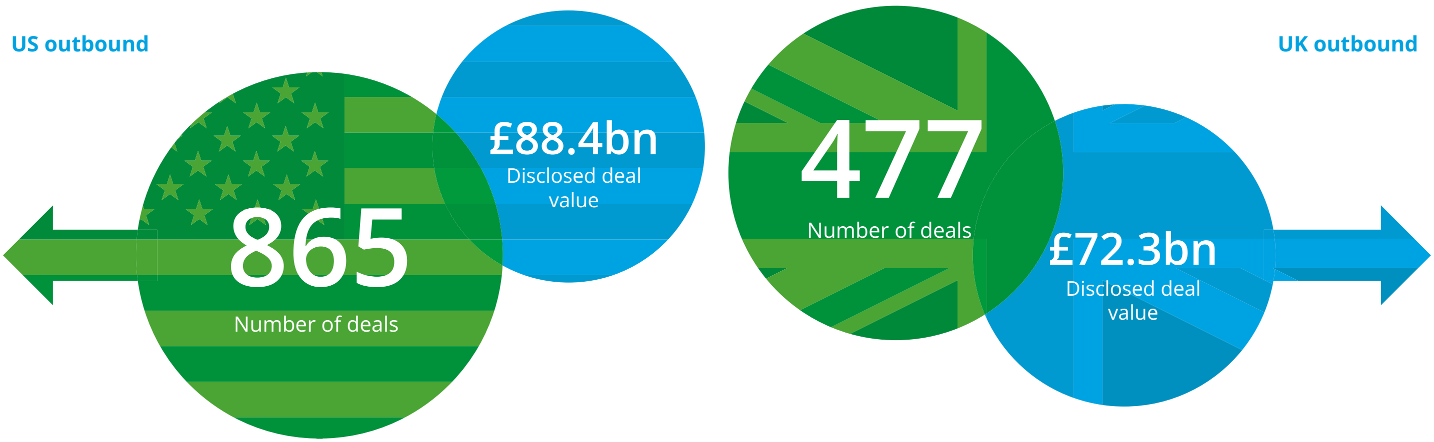
We are convinced that what bound the US and UK economies so closely before the Brexit vote will continue to bind them after it. Volatility is likely to be short-lived, and confidence will rebound – we already see that in the remarkable resilience of the US/UK deal corridor over the last six months as detailed in this report, and we fully expect to see some of the same resilience over the next six months and beyond.

Cahal Dowds
UK Head of US/UK M&A Corridor



Andy Wilson
US Head of US/UK M&A Corridor

US/UK Cross Border Deals (Q1 2014 – Q2 2016)
Highlights



Sector focus – Technology, Media and Telecommunications driving US/UK M&A deal flow

Geographical focus

Geographical focus

London is the main destination for US outbound deals.

The majority of US outbound deals originate from New York State.

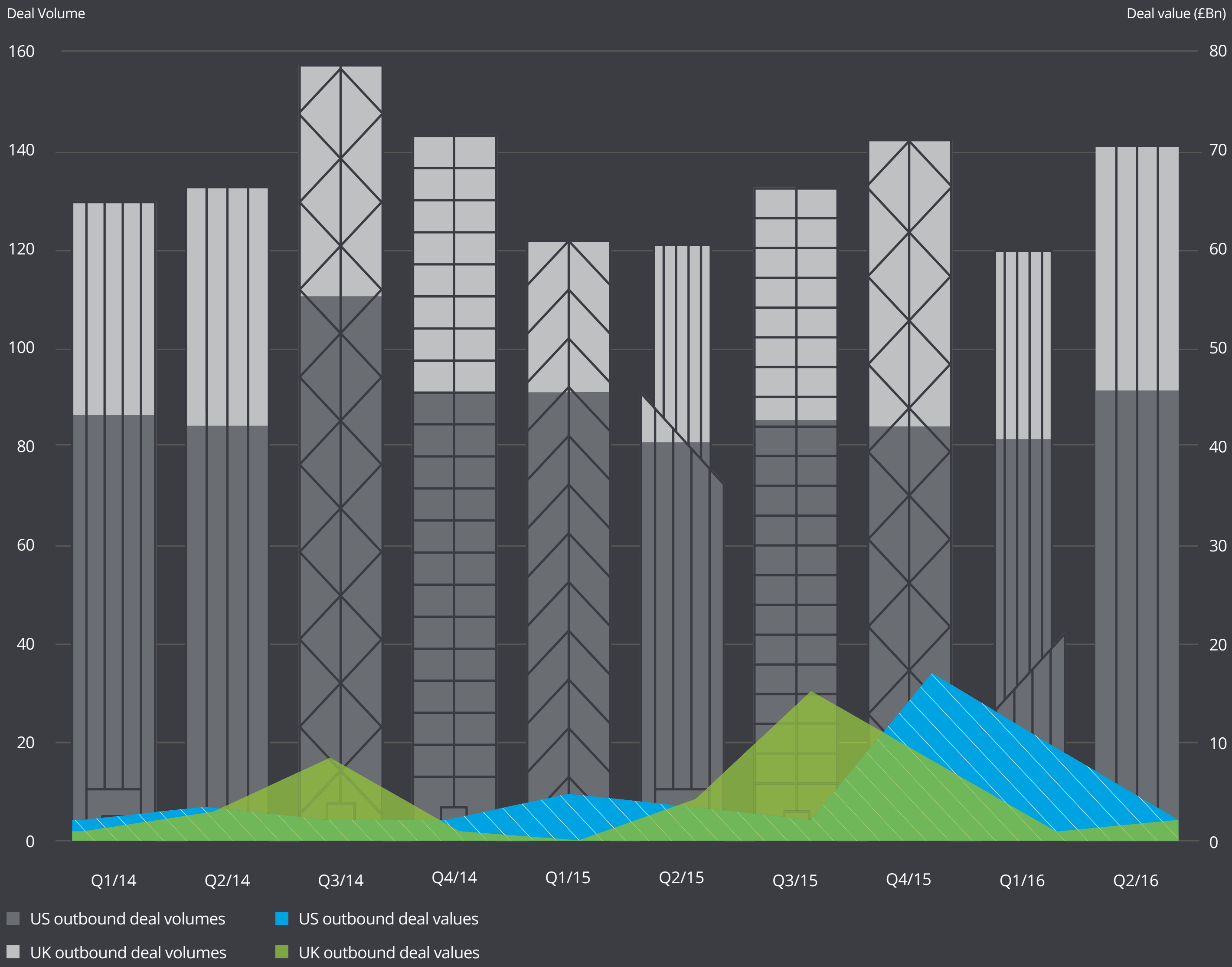
The majority of UK outbound deals originate from London.

California is the main destination for UK outbound deals.

Source: *Thomson One Banker*

Figure 1: US/UK cross border M&A deals

Deal volume and value



Source: *Thomson One Banker*

The Corridor of Power

The US/UK M&A corridor has shown resilience amidst uncertainty.

- The total volume of US & UK outbound deals rose through H1, with volumes in the second quarter the highest since Q4 2014
- The disclosed value of US & UK outbound M&A deals fell in the first half of 2016, with UK outbound values recovering modestly in the second quarter
- US outbound value has now been above UK outbound value for three consecutive quarters

Against a background of falling global M&A volumes into the UK and falling M&A values both inbound and outbound, the deal flow in the US/UK corridor has remained relatively strong. After record levels of global M&A in 2015, the current year has ushered in a period of deepening uncertainty due to the slowdown of the Chinese economy, the very low price of oil, and the prospect of the UK's late June referendum vote on membership of the European Union. Despite these headwinds the US/UK M&A corridor has registered very little in the way of volume decline.

The fall in the value of US/UK deals during the first half of 2016 is only a partial indicator due to the large number of undisclosed value deals in the underlying data, while US/UK volumes – a more reliable indicator – have actually risen slightly in the second quarter.

As the UK's Brexit vote came at the very end of the data period the impact of the result is not visible. However, the continued health of the US/UK M&A channel through the first half of 2016 is the result of several powerful driving factors. Among them:

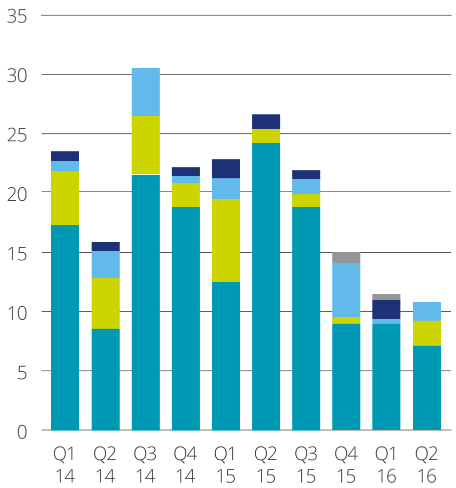
- **The US and UK enjoy a high and improving 'comfort level' in business and investment.** For many US investors seeking to reduplicate their 'leading player' business models outside their domestic market the UK remains the first port of call, while for UK investors seeking to increase business value by adding exposure to a growing, large and predictable market, investing in US 'bolt-on' acquisitions can be a necessity. *"The typical American each and every year feels more comfortable operating abroad,"* says Jamie Lewin, US Head of Private Equity Coverage.

  "The fact that the US has geographical isolation and access to great natural resources used to count for a lot, but now the world is getting smaller and the comfort level with cross-border business is increasing every day. It is a massive mindset change – and the fact is it is always going to be easier to initiate deals across the Atlantic than across the Pacific." The US and UK also share a great deal in terms of market dynamics and business and legal environment. *"What works for investors in the US tends to work in the UK and vice versa,"* says Head of UK Private Equity Coverage Richard Parsons.

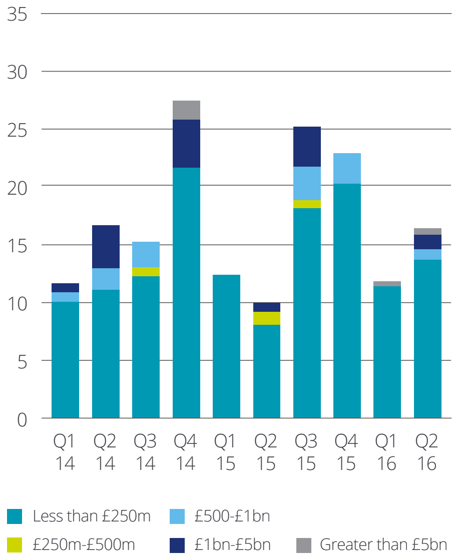
- **Investors on both sides of the Atlantic have large reserves of un-deployed capital.** *"There is a lot of specialist private equity 'dry powder',"* says UK Partner, Advisory Corporate Finance, Paul Staples. *"That money is most likely to get deployed in a market that investors believe they understand, and for US private equity houses that means the UK."*

Figure 2: US/UK M&A activity, H1 2016

US outbound – Deal volume sorted by value



UK outbound – Deal volume sorted by value



Source: *Thomson One Banker*

- **Rapid evolution of the technology sector is driving deal-making in both directions.** Technology, Media & Telecoms (TMT) remains the busiest sector in transatlantic M&A, accounting for by far the most deals over the last ten quarters. *"We cannot overstate the importance of the US/UK channel in TMT deals,"* according to Kenneth Kirschner, US Advisory Partner. *"In TMT what is relevant within the US and within the UK is equally applicable between the two. Today's ability to scale and to distribute content in a virtual environment makes M&A that much more valuable and critical to achieve, because right now if tech companies are standing still they are actually falling behind in today's increasing dynamic environment. And diffusion of technology into all sorts of industries has expanded the deal market, with a much larger range of possible acquirers."*
- **The growth of 'alternative lending' funds in the US and UK is propelling the M&A market.** The level of capital raising by European alternative lenders has now caught up with the US alternative lending industry, and in 2015 for the first time European funds raised more capital than their US counterparts. *"We are in an ultra-low interest rate environment that is driving investors like insurance companies, pension funds and private wealth into middle market alternative lending strategies,"* says Nedim Music, Senior Vice President, US Capital Advisory.

  "These are investors that need to match investments to long-term liabilities, and as a result they are increasingly interested in illiquid positions in middle market companies while traditional lenders like banks are facing an increasing burden of regulation that makes high yield lending much more difficult."

These strong M&A drivers help account for the continued US appetite for UK deals. US outbound deal volume has been little affected by either macro-economic or Brexit uncertainty, with US deal volumes in the last quarter of 2016 slightly higher on a year-on-year basis. UK outbound volume is also higher year-on-year in Q2 2016. However, the period that follows the UK's referendum vote in late June 2016 brings a new level of uncertainty; Brexit is discussed in more detail on the next page.

"The US/UK corridor will remain active because the US investor really has nowhere else to go right now. In the US, so many of the most attractive assets have already been bought, resulting in very high valuations for those which remain. So they will still want to buy in the UK."

Jamie Lewin

The UK & 'Brexit'

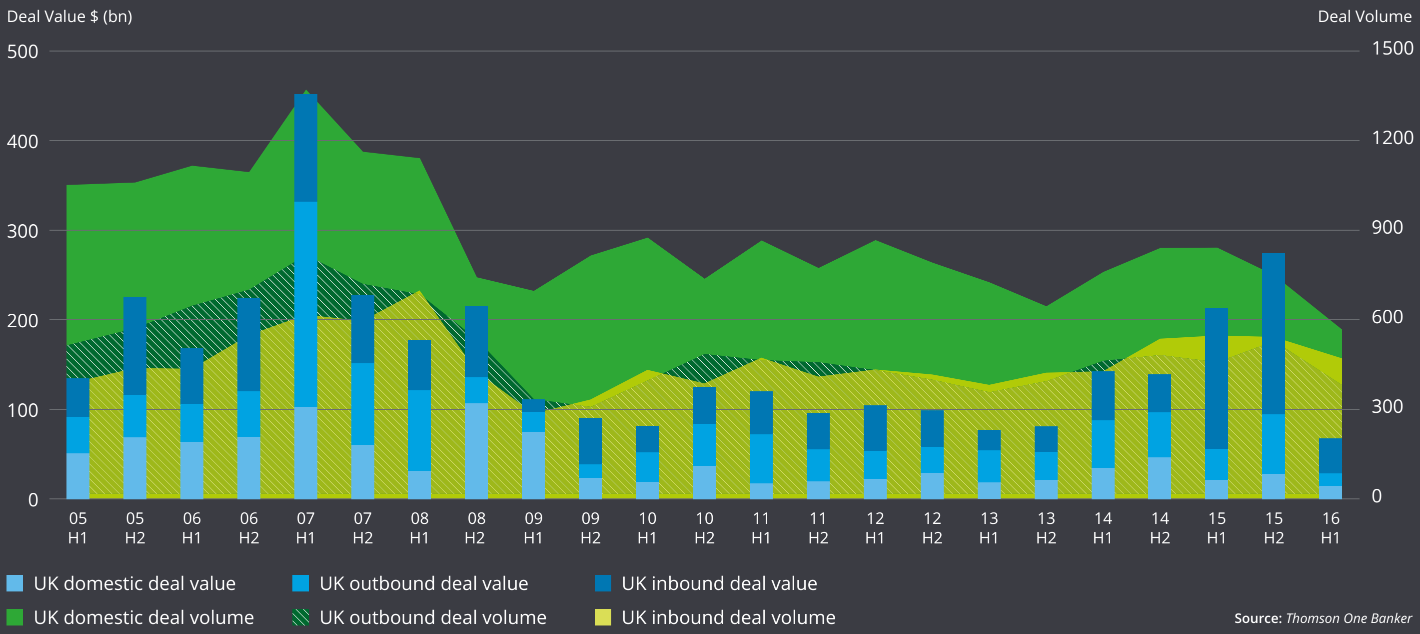
In late June the United Kingdom voted in a nationwide referendum to leave the European Union. In the wake of this unexpected vote for 'Brexit' there has been considerable volatility in equity and debt markets, a sharp fall in the value of sterling against the US dollar and the euro, and a thoroughgoing reshaping of the UK's political landscape. Unsurprisingly, the outlook for UK M&A activity at both global and UK/US levels has also become more uncertain, as the timing and terms of the UK's exit from the EU are yet to become clear.

It is the view of Deloitte that this period of acute uncertainty is likely to be relatively short-lived. Although the Brexit vote has delivered the biggest shock to the UK's political economy since the financial crisis of 2007-8, this is not a 'Lehman moment'. The underlying UK financial system is stable, there is limited systemic risk from the Brexit shock, and companies are moving quickly to adapt operations to the new reality. *"The drivers of the UK/US M&A corridor remain intact, whatever the final terms of the UK's exit from the EU,"* says Kenneth Kirschner.

"Private Equity has always been very successful when there is dislocation in markets, and with the discount that now applies to UK assets they will be very ready to do deals."

Barry Curtis, US Managing Partner

Figure 3: UK M&A Activity Since Q1 2014



Source: *Thomson One Banker*

- **Policy uncertainty will abate.** Although the referendum vote is only advisory, the likelihood remains that the UK will begin negotiations to leave the EU within months. The Conservative government of the UK has already moved exceptionally rapidly to name and install a new Prime Minister, and the first priority of the new leader will be to achieve clarity on the UK's relations with the remaining 27 states of the EU as soon as possible.

- **Financial markets remain open for business.** The immediate aftermath of the Brexit vote has seen bank and alternative lending markets stress that they remain open for M&A financing. Some upward pressure on loan costs and tightening of deal terms has been visible, and lenders are refocusing on cash flow and credit fundamentals, but it remains the case that both private equity houses and alternative lenders have raised record amounts of capital that they remain keen to deploy in US/UK deals.

- **Data show that US/UK deal-making remains resilient.** Global M&A volumes into and out of the UK have fallen over the last two quarters. It is likely that this is in part due to the uncertainty generated by the prospect of the UK's EU referendum, but also due to some fall-back in deal volumes after the preceding year which saw the highest level of M&A activity since 2007. As deal volumes have fallen elsewhere, US/UK M&A volumes have risen in both directions over the last quarter, suggesting that even in the face of uncertainties on global growth and the future of the EU, the US/UK corridor remains exceptionally healthy.

Looking beyond the current period of uncertainty and market volatility, there is reason to believe that the factors that have made the US/UK deal corridor the most active bilateral M&A channel in the world will continue to drive this market. Although the terms of the UK's exit from the EU have yet to be clarified it is possible that trade and market access rules will not be vastly different from current arrangements.

Cross-border investor confidence will also be supported by the fact that the UK has exceptionally strong public institutions capable of dealing methodically with change, and a private sector with a deep reserve of innovation skills – especially in the technology sector which accounts for most of US/UK deal-making.

Case study: 'We believe in UK Acquisitions' says Verisk Analytics

The UK remains an obvious M&A target for US technology firms and the Brexit decision does not change that, says the New Jersey-based data analytics and risk specialist Verisk Analytics.

Last year Verisk completed its biggest UK acquisition with the $2.8 billion purchase of Edinburgh-based Wood Mackenzie, an energy-focused data business – and it was not a snap decision says Verisk's Senior Vice President of Corporate Development and Strategy Vince McCarthy: *"the acquisition was part of a very long-term strategy for where we want to take Verisk. This was something that we contemplated at great length, and it was a long process, at least four years in the making."*

Vince McCarthy says that the UK is attractive to data and technology companies because of the maturity and sophistication of the market. *"We look for acquisitions in markets where data is highly -prized, and where the model is replicable across markets,"* he says. *"We're interested in companies that have deep expertise in their own domains, where they have first-mover advantage, and where they have unique data assets."*

But McCarthy concedes that the UK is not the same as the US when it comes to acquisitions. *"At Verisk, we take a relationship-based approach to M&A, and that's an advantage for us in non-US markets,"* he explains. *"It's often said that the US market is more transactional in its M&A approach, and while that isn't the whole story, it's partly true. In the US you can move very quickly on transactions, while in the UK there's more validation and qualification of counterparties, and that can take time. But once that's complete, things can also move very fast in the UK."*

Having recently completed a large-scale UK acquisition, what advice does Verisk have for US acquirers? *"I'd say it's very important to have a deep and constructive dialogue with the company and with the private equity owner throughout the M&A process,"* says McCarthy. *"I'd also counsel US companies that in the UK there's a great deal of media interest in M&A, especially in the financial press. None of us control the media, so be aware that you'll be scrutinised."*

Although McCarthy says the Brexit vote was a surprise, it will not alter the company's perspective. *"The UK is attractive to US companies because there are so many centres of excellence based on human capital,"* he says. *"There's also a richness of the universities and research centres, a focus on data science and analytics, and an ecosystem that fosters innovation. I'd like to see that grow, and I think it will. That's why Brexit hasn't altered our commitment to the UK, and it hasn't changed our positive view of acquisitions there."*

Financing Remains Key to M&A Flow

Alternative direct lending funds and private equity activity continue to add momentum to both US and UK outbound deal-making, with the number of private equity-backed deals in both UK and US outbound M&A running above the 10 quarter average in Q2 2016. According to Deloitte's Alternative Lender Deal Monitor which includes pan-European data to the end of 2015, deal flow involving alternative lenders continues to grow despite the market tightening with higher prices, and more stringent conditions.

- European 'alternative lenders' now matching or exceeding US fundraising
- Volume of private equity deals in UK outbound M&A falls slightly but remains high
- Volume of private equity deals in US outbound M&A grows for first time in six quarters
- Debt markets stable following Brexit vote

The alternative lending market is being propelled by the inherent attractiveness of lending which is quick to access and more flexibly structured than conventional bank lending, at a time when high-yield bond markets have been unwilling to fund deals and when banks are facing increasing regulatory oversight and more stringent liquidity requirements.

Larger companies needing to borrow for acquisitions have turned increasingly to corporate bond markets in recent years – 2015 was the biggest year for high-yield debt issuance since 2009 – but in the first quarter of 2016 that changed dramatically, as the high-yield bond market froze against the background of risk aversion driven by fears over a hard landing in China and commodity price volatility. That has brought alternative lending by specialised funds and institutions such as pension funds and insurers further into the mainstream.

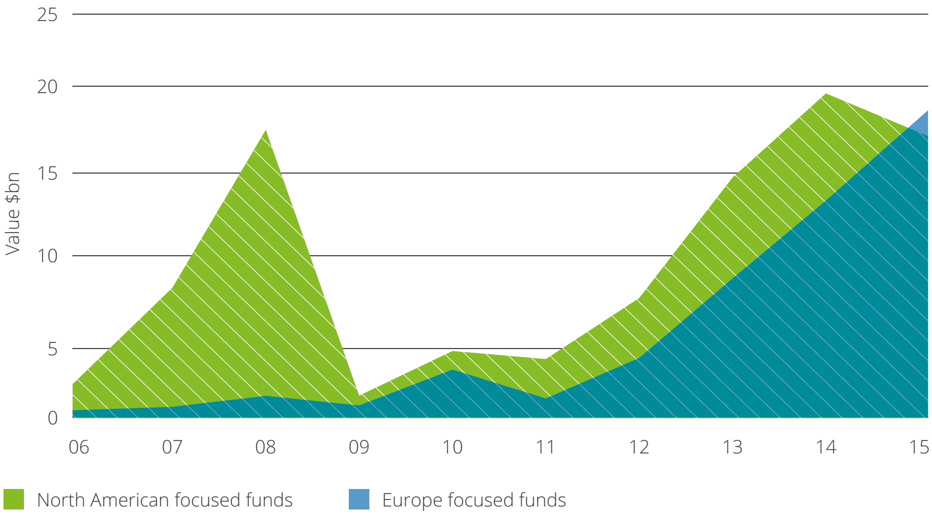
Alternative lending provides direct access to institutional capital that was previously available only to large corporates, and on terms that in many respects are more favourable to borrowers than traditional bank debt. It offers features like non-amortising 'bullet' structures (where the entire value of the loan is paid at maturity), flexibility on covenants, dividends and portability, and PE-like features such as close involvement of alternative lenders over the life of the loan.

"Up to now the US has always been the main alternative lending market," says Nedim Music. *"The US is the bigger market and most alternative lenders cover the whole of the US. The European lending market is more fragmented, and was historically always dominated by banks. The US funding model is less dependant on banks, with institutional lenders providing the large majority of funding. These non-bank investors are comfortable providing more flexible debt structures than banks"*

John Deering, Managing Director, US Capital Advisory agrees, saying *"the US is many years ahead in alternative lending. There are more funds, and they have been around for a longer period. But there are new funds too – in the US in particular banks face a lot of regulatory pressure and that has created a void in the market. For example, there are now more than 40 publicly traded Business Development Companies, (ie incorporated alternative lenders in the US,) whereas five years ago there were probably less than ten."*

However, where the US leads Europe follows and alternative lending in Europe is set to grow very fast, says Nedim Music: *"the European market has evolved quickly, to the point where there is now some over-supply of money and signs of competition on pricing and on terms. European alternative and PE lenders are increasingly looking to enter the US market, where at the moment you can often find better risk-return opportunities. European fundraising has also recently outstripped US fundraising, and that is very unusual."*

Figure 4: Alternative lenders raise record capital

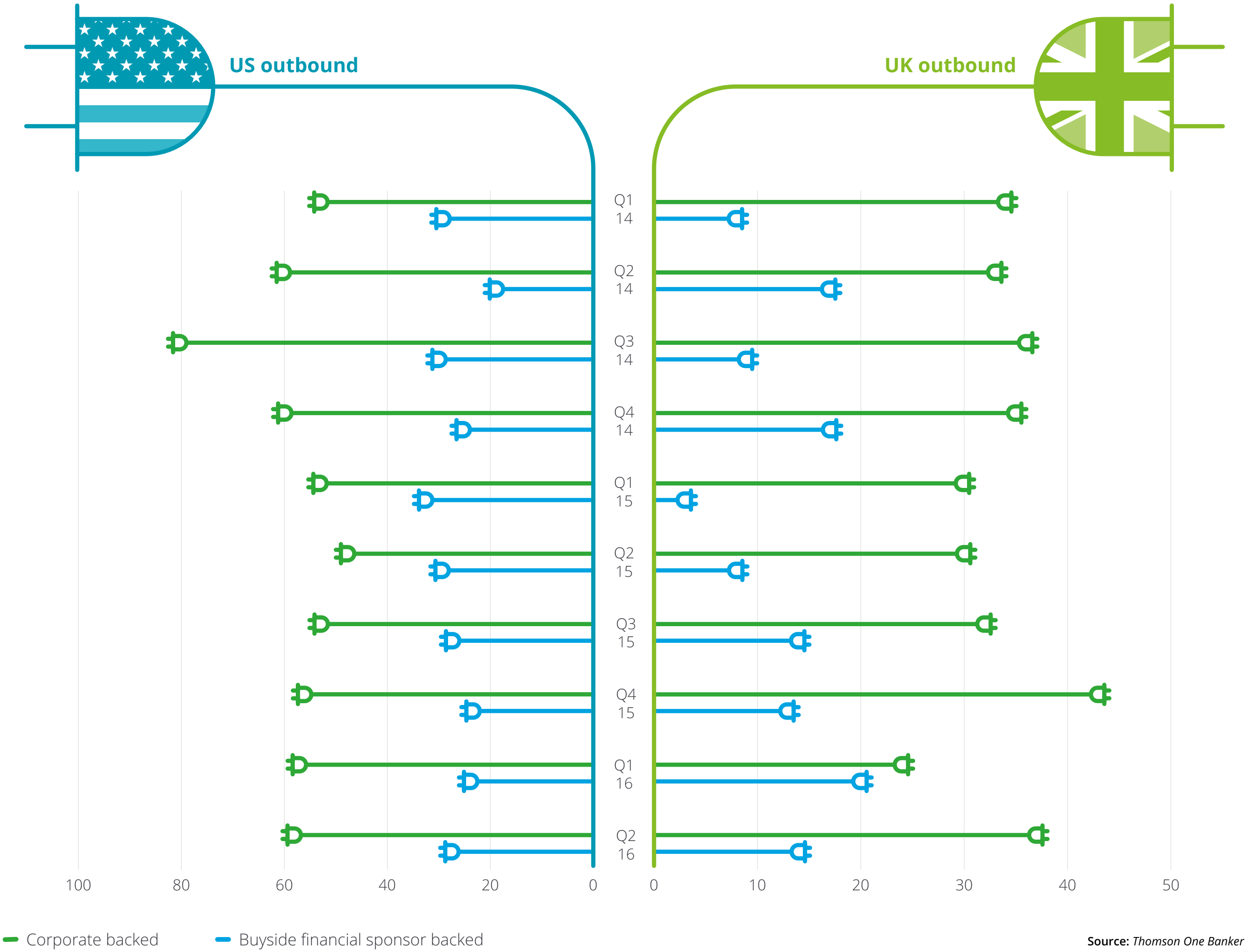


The UK referendum vote to leave the European Union has hit debt markets – but not nearly as much as feared. *"The key point is that the market adjustment has been very orderly,"* says Fenton Burgin, Head of UK Debt Advisory. *"We have not seen financial market contagion, and there are no signs of a shutdown in corporate financing markets. There has been no spike in interbank rates, and central banks have moved quickly to provide liquidity and to reassure markets."*

But European loan markets will be tougher for borrowers in the immediate future, says Burgin. *"Big ticket M&A is in any case down on last year, and most companies had already re-financed in the expectation of interest rate rises. Investors are now risk-off. The cost of funds for UK-centred banks is likely to rise, although the rise will be gradual. All this means that Brexit is likely to accelerate the shift from bank lending to alternative lending. Alternative lenders have raised record amounts of capital over the last 18 months and they remain keen to deploy that into the mid-market. They are also poised to step in where any deals or IPOs have been halted. A structural shift in the M&A financing market that was already underway will be accelerated."*

Private Equity in the US/UK Deal Corridor

Figure 5: Corporate & PE Deals by volume



Source: *Thomson One Banker*

Currently the Deal Monitor shows that in the second quarter of 2016 the number of PE-backed outbound US deals has begun to grow again after five quarters of declines, while PE-backed UK outbound deals have fallen only slightly. The PE share of US outbound deals has fluctuated both up and down over the last 10 quarters, while the numbers of PE-backed deals in UK outbound M&A has risen in most quarters since the beginning of 2015 and remains above the 10-quarter average. There is no sign of a sustained loss of PE deal appetite in either direction. Corporate appetite for deal-making also remained strong in the second quarter of 2016, even though the Deloitte CFO Survey Q1 2016 shows that risk aversion among UK corporates has been rising before the late June EU referendum, with defensive strategies favoured over expansionary strategies, and that only 18% of UK CFOs currently consider acquisitions to be a 'strong priority'.

US outbound PE deals continue to run at roughly double the volume of UK outbound deals. The US PE market is approximately seven times bigger than the UK market (in terms of numbers of PE houses) says Richard Parsons, who adds ***"many UK houses are only allowed by mandate to invest in the UK or in Europe, while US private equity usually does not have a cap on geographies. But even so UK PE can do 'bolt-ons' in the US for UK companies, and that is an important part of the M&A deal market. Private equity knows that if UK businesses are able to sell into the US market, then they can achieve greater multiples for those businesses."***

The second half will show whether PE proves particularly sensitive to post-Brexit vote uncertainty. ***"Private Equity is mostly driven by financial returns in the three to five year horizon, so any change in market conditions has an immediate impact on PE,"*** says Nedim Music. ***"Corporates tend to be less focused on market conditions. They have strategic priorities that encourage them to look through short-term uncertainty and stick to their long-term investment plans."***

"Private equity will always want to buy the right businesses, and where pricing is now very favourable as in the UK, it is quite likely that there will be a lot of very good deals struck."

Barry Curtis

According to Jamie Lewin, of all the 800 or more US private equity groups to which Deloitte presented transaction opportunities last year, the overwhelming majority are specialist groups. ***"Today the market pushes you to be specialist,"*** he says. ***"The last generalist groups are the mega firms – it is very hard to be a middle-market PE investor without being specialist. You need that specialist conviction to win the auctions, and US investors have more confidence in getting their money deployed where groups are specialist. But the UK is not nearly so specialised, the necessity is not there."***

That specialism also reflects the difference in strategy between US outbound private equity deal-making and its UK counterpart. Private equity in the US is accustomed to investments in relatively large, niche- or market-dominating companies, while the outbound UK deals that UK PE houses are involved in are often smaller in scope relative to the large US market. According to UK Transaction Services Partner Jason Richards, ***"in the US PE tends to already have businesses within their own portfolios that are dominant in the US and they are looking to expand that and to replicate it in the UK. They bring experience of managing large dominant businesses."***

Case study: New Mountain Capital Sees Opportunities in the UK

New Mountain Capital (NMC) is one of the new breed of US private equity houses that is turning its attention beyond North America for M&A opportunities. It has $15 billion in assets under management, including the $4.1 billion Fund IV it is investing now. Managing Director Mat Lori says that the US/UK M&A channel is a particularly interesting one for New Mountain. *"NMC is active globally, and particularly in the UK,"* he says.

New Mountain – whose motto is *"building great businesses"* – emphasises growth and business building rather than debt and risk as its path to returns. The firm operates a low leverage, high growth model in companies that are market leaders in non-cyclical growth spaces with a target investment size of $100 million to $500 million per transaction. New Mountain looks for companies that have significant revenues or revenue potential in the US, as well as 'bolt-on' acquisitions for UK companies seeking to grow their businesses in the US. New Mountain also runs public equity and alternative lending platforms, focused like the private equity business on defensive industries with high growth, limited debt, and the potential to add further value.

"Our approach is centred on sectors that are carefully selected 'top down' and we look for great UK companies in these sectors, where the company has a meaningful US component," says Lori. *"There are many great companies headquartered in the UK that would like to grow faster in the US, and we can help them achieve this growth. This creates great opportunities for both the company and for New Mountain investors."*

"I don't see a lot of difference between the US and UK in terms of financing, or of valuations, but there is a big style difference in terms of relationships. In the UK relationships especially with management and owners are particularly important. If you want to do a deal you have to meet a lot of people, and in the UK people are more careful about selecting partners and who they trust. It's a competitive market with established relationships."

In the end success comes down to choosing the target that is right for you, argues Lori. *"You have to have an investment where you have a very clear path to value creation. And you have to ask yourself, do you really have a good shot at winning the deal. That is much more important when you are outside of your core market."*

Like many US mid-market PE houses, New Mountain (based in New York City) believes that with London closer than many US destinations it is perfectly possible to do good deals in the UK without opening a permanent office. *"We have no intention to open in London, but that's because we work so closely as a team together in New York for investment judgement. However, our companies are generally headquartered outside New York,"* adds Lori. *"When we find the right investment, wherever it is headquartered, we will pursue it."*


VIDEO
AUDIO

TMT Still Leads M&A Flow

The Technology, Media and Telecoms (TMT) sector has seen the most deals of any sector in each of the last 10 quarters for both US outbound and UK outbound; in the second quarter of 2016 UK outbound deal volume fell very slightly as US outbound volume rose for the fourth consecutive quarter. Deal volumes in TMT have been broadly stable over the last ten quarters (unlike most other sectors), with technology deals clearly dominating the volume in both directions since Q1 2014.

- TMT is the busiest deal sector by volume in both directions
- Large volumes of mid-market deals in media and tech
- TMT remains second biggest sector by value
- Tech is clear subsector leader by volume and value
- US outbound volumes in TMT have grown for four consecutive quarters

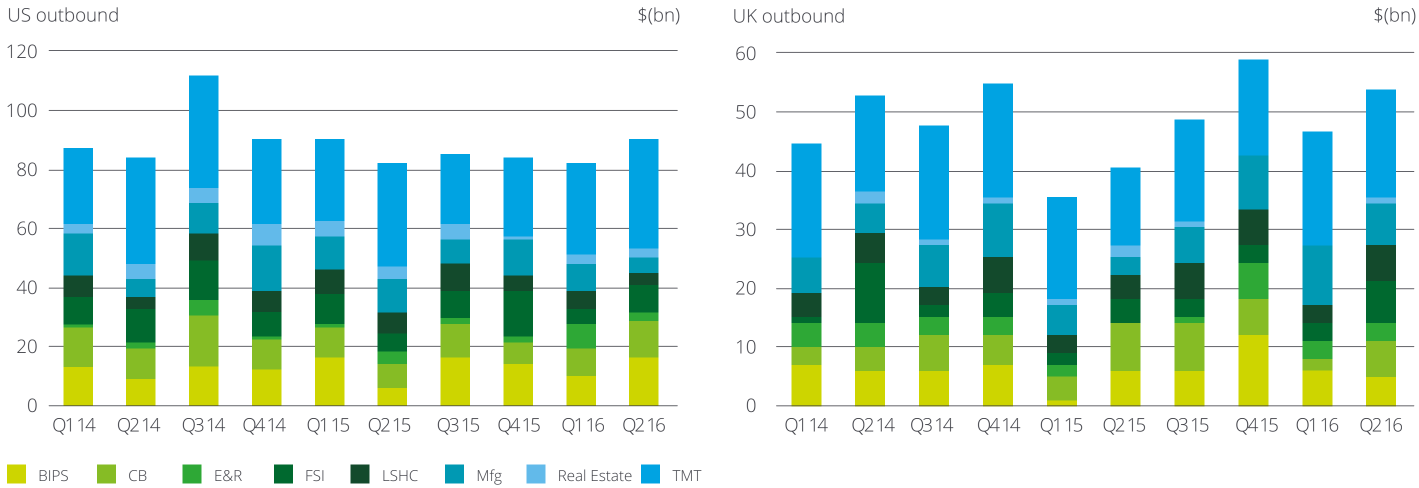
Financial services has been the most valuable sector for US outbound M&A over the last 10 quarters, and consumer business the most valuable sector for UK outbound. However, value totals for each of those sectors have been influenced by two very large deals (the US purchase of Visa Europe and the UK purchase of US tobacco maker Reynolds).

When these single large deals in financial services and consumer business are stripped out, TMT remains the most vital part of the US/UK M&A channel. The reasons are clear: TMT includes businesses primarily in media that are restructuring fast and deeply as part of a survival strategy in the face of digital challenges, and technology companies that are evolving at an unparalleled pace as digital technology diffuses into every corner of the economy, and as the technology base itself changes rapidly. Telecoms deals form a much smaller part of the deal volume – there were no UK outbound telecoms deals from Q4 15 to Q2 16 and only three US outbound deals.

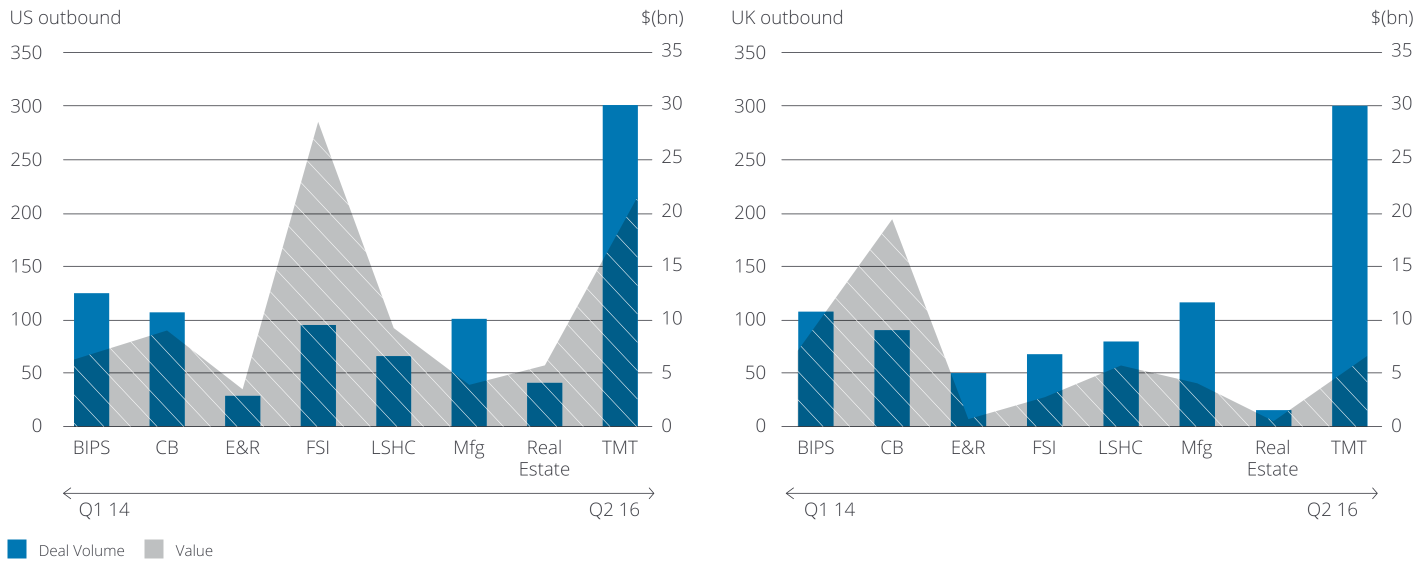
> "Technology is an integral part of any business and Brexit will not change that. It might actually mean increased revenue for some business, as they move from a single market to multiple jurisdictions."
>
> **Jason Richards**

Figure 6: Deal Volume and Value by Industry

Deal volume by Industry



Deal volume & value by Industry



The US/UK M&A channel for TMT businesses is long established. Kenneth Kirschner says ***"there are macro drivers at work, like the long history and precedent of TMT cross-investment, and familiarity with the business, legal and regulatory environment."*** And Paul Staples agrees: "***the UK is a market the US understands. They understand the UK much better than the EU, and not just because of the language. The US/UK relationship is one investors have confidence in."***

Will that confidence evaporate post-Brexit? Richard Parsons thinks that is unlikely: ***"the sort of business investors wanted to buy a month ago they still want to buy today. What might alter is the price they are willing to pay; if businesses can't demonstrate the same growth potential, the premium may fall. In particular, TMT businesses are likely to be more 'Brexit – resistant' than others."***

- The TMT subsector that was most active in the first half of 2016 is **technology**, as it has been for the last ten quarters. According to Paul Staples, the main factors supporting a high level of transatlantic M&A in tech is that the US dollar was strong before the Brexit vote, and is now stronger still (supporting US outbound deals), and the US maintains its technology lead in a fast growing technology market (supporting UK outbound deals). ***"The strong perception is that the US is still 12 to 18 months ahead in technology,"*** says Staples. ***"It is easy to scale in the US, and there is a deep reserve of talent, especially in the West Coast technology sector. Meanwhile in the UK the strongest trend is for tech companies to get bought, not to buy. There are hundreds of tech companies worth $100m or less in the US and in the UK, but while in the US owners tend to hold equity until they are late in life,in the UK owners sell much earlier."***
- In the first half of 2016 the volume of **media** deals has increased, driven by primarily by consolidation in both the US and UK. ***"There is a consistency of deal-making in media, where companies are being driven by structural decline and the need to pursue survival strategies"*** says Paul Staples. ***"For example, there is a great consolidation taking place in the US newspaper market. But the US market is still the world's biggest advertising market and still has the highest quality assets, so if you are a UK media group and you are underweight in the US you want to buy."***

Yet there remains limited 'convergence' between TMT sectors, says Staples. ***"The opportunities for cross-pollination remain limited,"*** he argues. ***"The trend is for acquisition and expansion, not for convergence. Technology groups buy technology, not media. If there is one convergence play it is in the convergence of education and technology, and there again it is the US that is world-leading."***

- There have been few **telecoms** deals in the last four quarters. ***"The reason for that is that there are not a lot of megadeals left in telecoms,"*** says Kenneth Kirschner, while Paul Staples adds ***"due to regulatory issues it is likely that we will see more joint ventures and partnerships in telecoms, rather than outright acquisitions. Where telecoms companies are hemmed in by the regulators, and where they have a lot of issues around taking out costs and making new investments in their existing portfolios, they are likely to be thinking there is too much to do in the existing business to be going out and making acquisitions."***

The impact of the UK's Brexit vote on TMT deals is likely to be critical for the health of overall US/UK M&A. According to Jason Richards that impact is likely to be mixed in the short term, with some buyers proving sensitive to Brexit uncertainty while others stick to their strategic guns. ***"Some deals are taking a breather,"*** says Richards. ***"For example I have one deal which is a US tech corporate buying a UK PE-backed corporate, that is currently slowing. On the other hand I have another deal where four US corporates are bidding for a UK technology company, and that hasn't been affected at all. However, looking beyond the initial volatility I believe that the business critical need for technology companies will prevail and continue to drive M&A growth."***

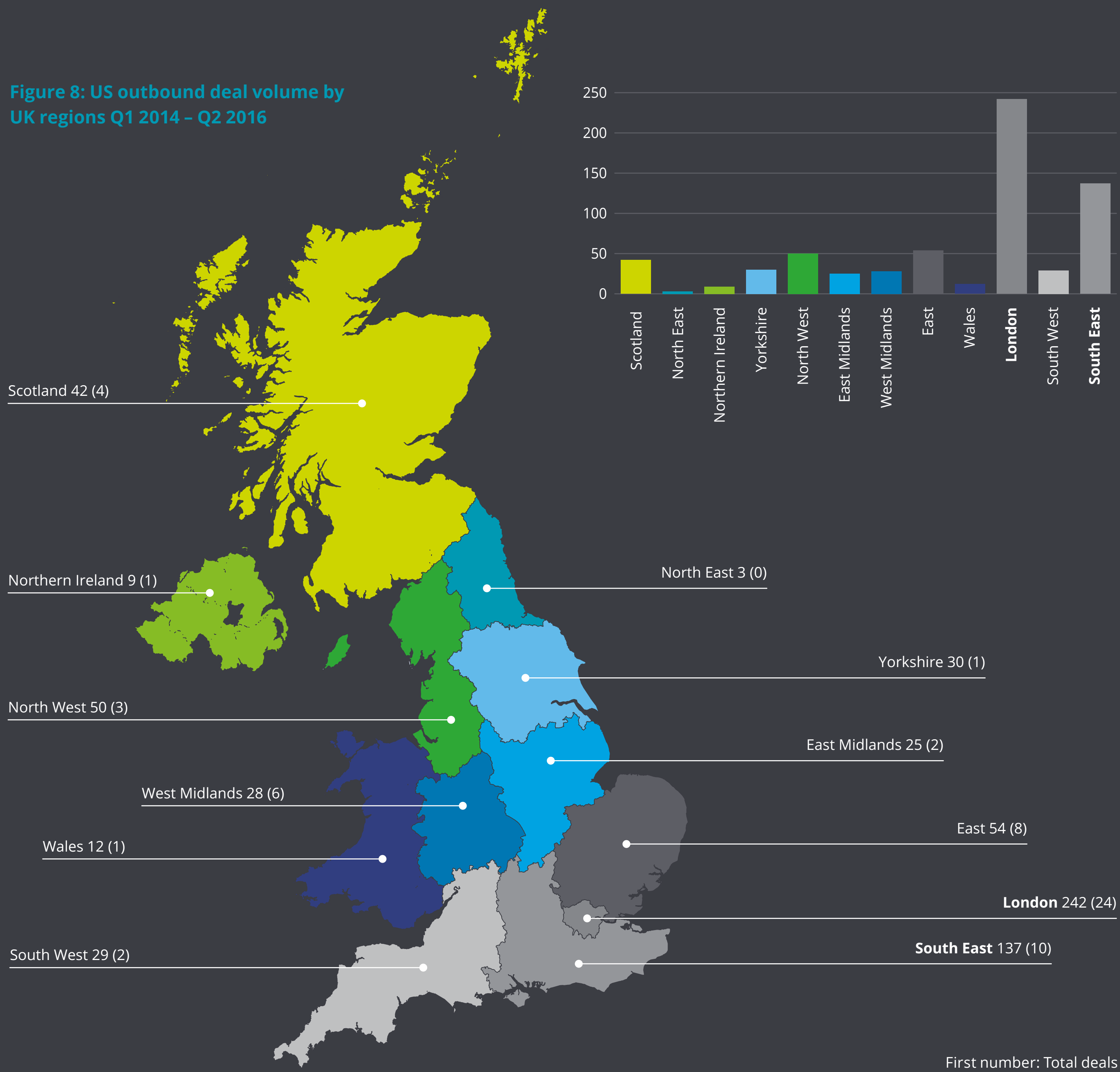
"Tech is a very strong M&A sector because of the rapid cycles of innovation. Companies face a buy-or-build decision, but even if they could build it may not make sense."

John Deering

Figure 7: TMT deal volume

Source: *Thomson One Banker*

Figure 8: US outbound deal volume by UK regions Q1 2014 – Q2 2016



First number: Total deals
Number in brackets: Deals in H1 2016

By Region: It's London Versus California

The London-New York axis has been superseded by the London-California axis in UK outbound M&A, while US dealmakers remain focused primarily upon London and the South East region which is close to London. These regional dimensions of deal-making reflect the dominance of the technology sector in the corridor, and the proliferation of technology companies in these specific regions.

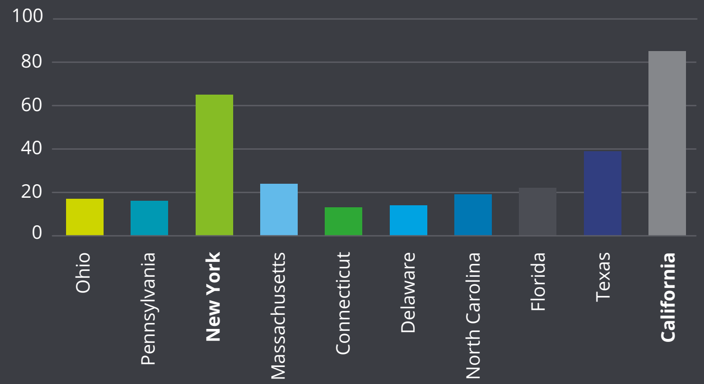
- California remains the primary location for UK outbound M&A
- US outbound M&A concentrates on London

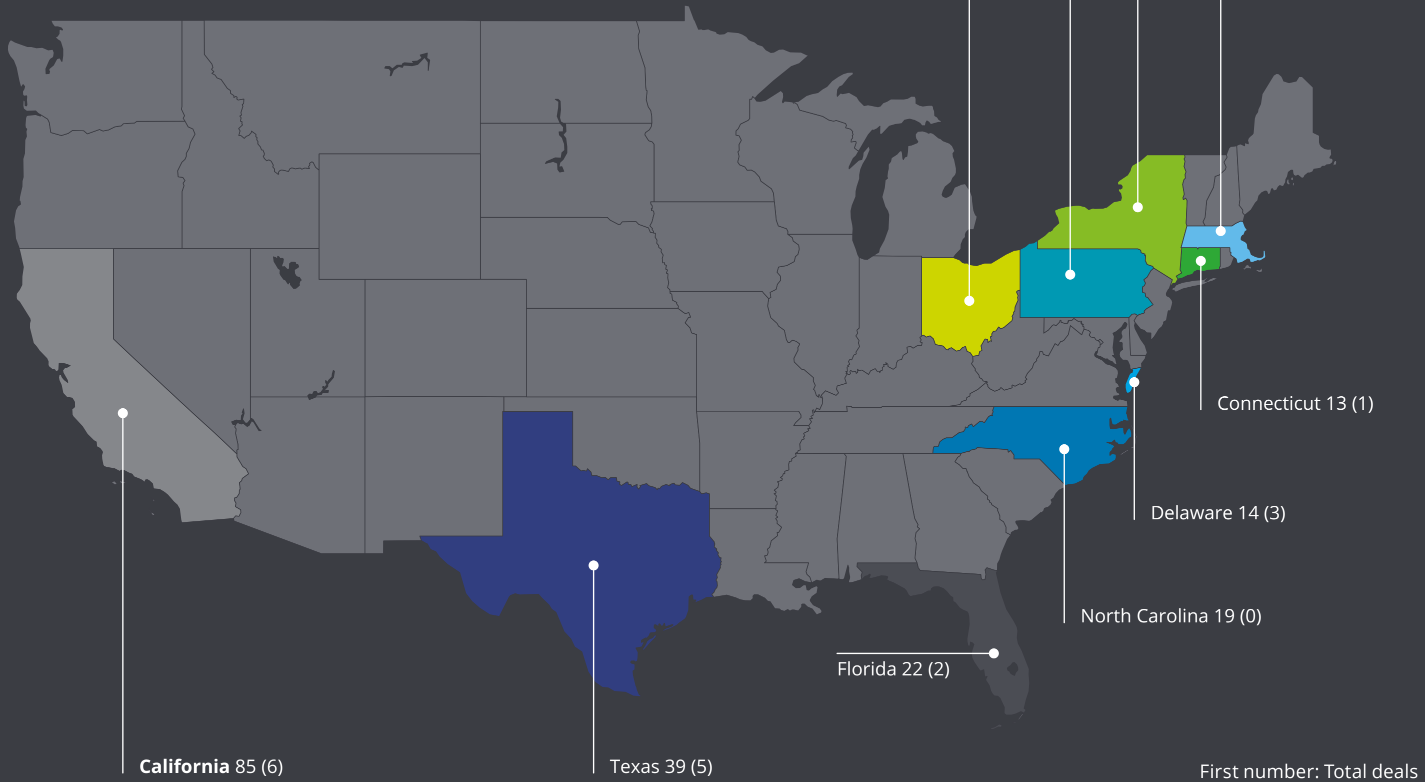
If UK outbound deal-making is concentrated in California and New York, US outbound acquisitions are even more concentrated. London and the South East attracted almost half of all US outbound deals over the 10 quarters (418 out of 865), and in the dominant TMT sector London attracts by far the greatest number of deals. In the last half year London attracted more than double the number of TMT deals than all other regions put together.

Almost all UK outbound TMT deals are done in either California or New York; Texas is the next most favoured target for UK acquisitions, but in Texas deal-making is spread roughly equally between sectors with only two TMT deals in the first half of 2016 (California accounted for 12 UK outbound TMT deals in the first half of this year, and New York eight).
UK acquirers also bought three California manufacturing businesses in the last half year, the next largest sectoral deal group in any one region.

In terms of the geographical origin of PE versus corporate deals, the great majority of all UK outbound private equity deals over the last 10 quarters originate in London and the South East, reflecting the UK's very marked concentration of financial institutions in those regions. For US outbound deals there is a much greater geographical spread, with New York followed by California in the lead on private equity deals over the last 10 quarters, but with significant private equity participation from Texas, Florida, Connecticut and Illinois.

Figure 9: UK outbound deal volume by US states Q1 2014 – Q2 2016





First number: Total deals
Number in brackets: Deals in H1 2016

Conclusion

The US/UK M&A deal corridor remains a unique measure of global business vitality. In the face of unusually high levels of uncertainty through the first half of 2016, the rate at which deals between the US and UK were concluded has barely altered. However, the second half of 2016 will register the impact of the UK's late June referendum decision to leave the European Union: the resilience of the deal corridor is about to be tested.

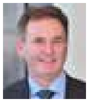
Yet stability factors outweigh uncertainty. Financing options for M&A have grown, and alternative lenders and private equity have record amounts of capital waiting to be deployed. Structural changes in industries, especially in the TMT sector, continue to push businesses into US/UK deal-making. Debt markets have already achieved an orderly adjustment to the UK's surprise Brexit decision, with no evidence of financial contagion or market shutdown.

And by the end of the third quarter of 2016, it is likely that much of the policy uncertainty over the terms of the UK's relationship with the remaining 27 members of the EU will have lifted. While the deal process is likely to be slower over the remaining half of 2016 and some impact is likely on deal volumes, we expect the transatlantic deal corridor will continue to show the high level of resilience it has demonstrated in the recent past.

"Investors are resilient and resourceful, and as with other disruptive events they will adapt."

Kenneth Kirschner

US/UK M&A Deal Corridor Executive



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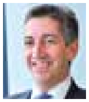

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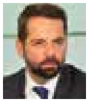

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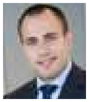

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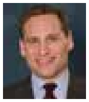

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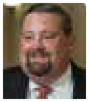

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