Deloitte.

Deloitte US/EU M&A Report

Country focus Austria

Content

Methodology

In this report we cover the deal flow between the US and the 28 member states of the European Union (EU). Data are based on deal volumes and values from 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. Deal values are also highly volatile quarter to quarter, while deal volumes normally show only incremental changes. For these reasons Deloitte considers deal volumes to be the more valuable short to medium-term indicator; volume calculations are based on all announced deals whether or not value is disclosed. A small number of announced deals included in the data do not proceed to completion. Data includes minority stake purchases according to criteria of Thomson One Banker.

Preface

The flow of mergers and acquisitions is an indicator of the vitality of the global corporate economy. The rate at which businesses are being formed, restructured and developed can be read in the rate of M&A, which correlates closely to confidence about the future. The last year has seen record activity in the US/EU corridor, driven by the strong growth of EU outbound transactions.

On those grounds the corporate economy would seem to be in fine form. As asset valuations climbed ever higher through 2017, financial conditions have remained easy. Even as long-term interest rates start to rise moderately, private equity buyers are still sitting on a $1 trillion mountain of undeployed capital, while strategic buyers are cash rich. This gives them powerful financial leverage when it comes to dealmaking. The rise of Alternative Lending is adding even more liquidity to the M&A market. It looks like a strong setting for another record year for M&A in 2018.

At this point we have to introduce a note of caution. Market volatility has returned to the stock market after a long period of steady growth and time will tell if this is a widely anticipated correction, or a cause for alarm. Our conversations with corporate and financial clients suggest that there are several negative currents flowing beneath the benign surface. The global M&A flow may be strong and growing stronger - and Deloitte's latest US M&A Trends Survey[1] suggests that at a global level corporate and private equity executives expect more and bigger deals in 2018 - but the outlook for the US/EU corridor includes some challenges.

There is uncertainty over the impact of policy in the US. The recent tax reform bill passed by Congress will have far reaching impacts on corporate operations, and these are effects that cannot be generalised - the tax efficiency of acquisitions will now have to be recalculated on a case-by-case basis. Changes to the rules on cash held offshore could also have marked impacts on US corporates' foreign dealmaking. As it happens we expect these impacts will likely be net positive, but that may not hold true in the short-term.

Furthermore, signs of increased protectionism in major economies, such as the new US trade tariffs on steel and aluminum imports, are adding to the uncertainty. The exact consequences of these actions are also still unclear, but the enhanced regulatory scrutiny will impact cross-border deal making, especially for large or exposed transactions.

In Europe the big uncertainty is Brexit – the UK's exit from the European Union. At this point long-term Brexit effects are impossible to forecast and we don't pretend to do so. In the shorter term it is clear that the UK is in for a period of continued uncertainty, which may also affect deal making in broader Europe.

Nevertheless, in 2017, the US/EU corridor reached a new high on a volume basis with approximately 1,600 announced deals. This is driven by European outbound activity, which was up by 24 percent as compared to 2016, while US acquirers took a more cautious approach in Europe with deal volume remaining relatively stable in 2017.

This stands in contrast to US acquisitions in Austria, which have increased at a CAGR of 21% p.a. since 2013. With 49 transactions over the last five years, the US is the third most important M&A investor in Austria.

The long-term outlook is positive as, after a long period of sub-trend growth (especially in Europe), the macro outlook has improved. The three big motors of global growth – the US, Europe and China – are currently in sync, with growth at, or above, trend. And within the US/EU corridor there are powerful forces at work that will likely underpin dealmaking. The strongest of these is the tech driver – the need for companies to capture data and digital innovation to enhance their business platforms.

Increased uncertainties in the market are expected to affect M&A activity in the short-term. However, economic business drivers remain intact, indicating another strong year for M&A after record levels in 2017.

Andreas Hampel
Senior Manager
US/AT Corridor Leader

Albert Hannak
Partner
Financial Advisory

The Deloitte US/EU M&A Report

Welcome to the first edition of the Deloitte US/ EU M&A Report. This report analyses the deal flow between the US and EU, which is the most active M&A corridor in the world today. We analyse M&A activity over the last five years with an emphasis on Q1 2016 – Q4 2017 and put the numbers in a broader perspective by taking a closer look at four current themes that impact dealmaking along the corridor.

1. US tax reform: while the new regulations are adding to uncertainty in the short-term, it is expected that they will spur deal activity along the corridor. On the one hand, the US will be an even more attractive place for European firms to invest and, on the other hand, increased repatriations will likely fill the war chests of US companies. This would in turn also further push the currently high valuations in the US, leading to increased multiple arbitrage when US listed corporations are investing in the EU, where corporate valuations are relatively lower.

2. Brexit: the UK's exit from the European Union is due to formally take place in March 2019. We know from conversations with investors, both financial and corporate, that the uncertainties surrounding the process, the likely final terms of the separation and future trading relationships have been rising up the agenda. In this issue, we set out to clarify some of those uncertainties.

3. Capital: the currently record breaking amounts of cash accumulated by corporates and private equity funds, coupled with abundant availability of debt, is another driving force for global M&A activity. This is amplified by the strong growth of Alternative Lenders, especially in Europe, whose capital is predominately used to finance M&A.

4. TMT: as digitalisation and technology remain prominent in most corporate strategies, larger companies are using M&A to drive innovation. Many of these transactions evolve around data and the commercial application of data or help to improve process efficiency.

Setting the scene
US outbound M&A

Overall deal volume along the corridor reached a new height in 2017. While US acquisitions in Europe remained relatively stable at high volume, growth was driven by EU outbound deal activity.

US outbound M&A

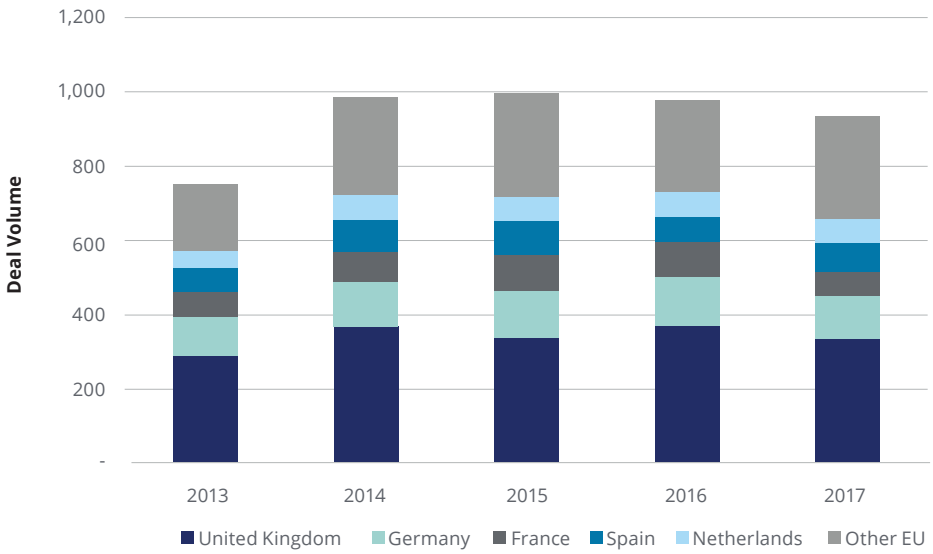
Global dealmaking remained flat in calendar year 2017, but the moderate slowdown is particularly evident in US outbound activity.

While US economic growth continues to outpace many other developed nations, recent volatility in the stock markets combined with changes in economic and regulatory policies, may result in a more prudent approach to international M&A by US firms as they seek to consolidate and invest in their domestic market. This, combined with the unknown future trading relationship with the Eurozone may also be a factor in the slight decline of US firms deploying capital in Europe.

Analysing deal volume for US outbound activity shows that the UK is by far the most popular target destination for US acquirers. Besides the common language and similarities in business culture, this can be explained by the large private equity sectors of both countries.

This is also reflected by Deloitte's latest US M&A Trends Survey[2], which polled 1,016 executives – 766 at US-headquartered corporations and 250 US private equity investors. It provides insights into the current M&A climate of US investors in 2018. Data shows that interest for US outbound deal activity into the UK and France remains, while interest in other countries stagnates.

US outbound acquisitions in EU



Source: Thomson One Banker

US outbound acquisitions in EU in 2017

EU outbound M&A

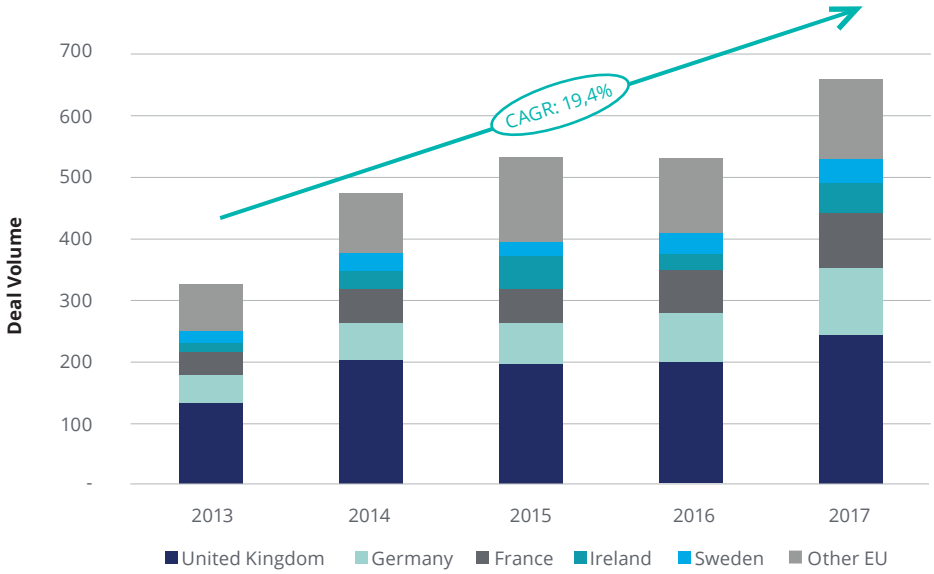
EU outbound M&A

In contrast, the number of EU outbound investments into the US continued to accelerate in 2017, with completed acquisitions up by over 24 percent as compared to 2016 totaling 657 deals. With EU companies seeking to grow and diversify via a program of global acquisitions, the US is an ever- attractive home for outward M&A. This can be partially attributed to both the confidence and the attractiveness of forecast economic growth rates in the US as compared to some European countries.

The UK is the most active country with regards to EU outbound M&A activity, accounting for roughly one third of all transactions. France is another large acquirer and shows a fairly balanced ratio between inbound and outbound deal volume with the US. The relative strength of French outbound activity (13.7 percent of European outbound transaction in 2017) is partially driven by the strong French private equity sector.

On a value basis, EU outbound activity decreased in 2017 due to a lack of very large mega-deals that were seen in 2016.

EU outbound acquisitions in US



Source: Thomson One Banker

Increase of EU outbound deal volume in 2017 as compared to the previous year

1. The US tax reform

The new US tax reform has the potential to increase M&A activity but uncertainty remains in the short-term.

The US tax reform signed into law on December 22, 2017, has extensive implications for both US outbound and inbound M&A. The reform significantly lowered tax rates on corporations, pass-through entities, individuals and estates. It replaced the country's graduated corporate rate structure, and its 35 percent average overall rate, with a flat 21 percent rate. Overnight, the law transformed the United States from the highest corporate-tax jurisdiction among the 35 developed nations in the OECD to the 13th highest.

Highest corporate income tax rates of developed countries

~~United States~~	~~38.906474~~	Prior to the Act
France	24.43	
Belgium	33.99	
Germany	30.175	
Australia	30	
Mexico	30	
Japan	29.97	
Portugal	29.5	
Greece	29	
New Zealand	28	
Italy	27.8064	
Luxembourg	27.08	
Canada	26.7	
United States	**25.75***	After the Act

Note: *New US corporate tax rate reflects 21 percent federal rate, plus 4.75 percent effective state tax rate, for a total of 25.75 percent.

That is a significant drop in tax liability by any measure and one that might spur additional interest in US companies. Material reductions in a country's tax obligations tend to improve the target market's value proposition, by changing investors' calculations on the attractiveness of investments in the US. The reform also introduces a 'One off' repatriation levy on offshore earnings of 15.5 percent. Some US corporations previously enjoyed unlimited deferral of tax on these earnings, potentially encouraging them to use the offshore cash to fund M&A transactions outside the US. This change might intensify competition for European buyers looking to acquire US targets as the one-time repatriation of overseas cash permitted by the Act is going to give US multinational companies more spending fuel, and strategic acquisitions inside US borders could soon follow.

These changes have been explored in detail in Deloitte's recent report Reshaping the Code: Understanding the New Tax Reform Law[3]. The precise impact of the reforms - which will vary considerably by company - is beyond the scope of this report. We, however, list the main changes included in the reform and consider how these will likely influence US/EU M&A.

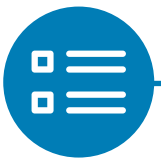
US corporate tax rate decreased from an average 35 percent to a 21 percent flat rate. Due to this measure, the US turned from the highest corporate-tax jurisdiction among the OECD nations to the 13th highest.

US tax reform may pause M&A

Domestic corporate tax: the act replaces the prior graduated corporate rate structure with a flat 21 percent rate, effective in 2018, and fully repeals the corporate alternative minimum tax (AMT). It also permits items that are amortised under current law to be fully expensed in the years to 2022, with reducing percentages thereafter.

International tax: the act moves the United States from a worldwide tax system to a participation exemption system by giving corporations a 100 percent dividends received deduction for dividends distributed by a controlled foreign corporation.

To transition to the new system, the act imposes a one-time deemed repatriation tax, payable over eight years, on unremitted earnings and profits at a rate of 8 percent for illiquid assets and 15.5 percent for cash and cash equivalents. The tax applies to foreign held assets whether or not they are repatriated (the previous 35 percent repatriation tax was deferred where assets were not repatriated). US companies can therefore repatriate cash at a discounted rate. The availability of repatriated cash in companies can significantly reduce finance costs encouraging more activity in the M&A market.



Base erosion prevention provisions: the minimum base erosion tax is equal to 10 percent above the taxpayer's normal liability, applicable to operations where corporations source services or any other tax-deductible items from foreign affiliates.

The tax reform amounts to a multi-layered alteration to the tax rules that affect both domestic and especially offshore operations. It represents a move towards a more global taxation system for US corporations, says Todd Izzo, International Tax Partner Deloitte US, but he adds that the complexity of the reforms mean that there is no simple conclusion to be drawn as to the broad impact on M&A.

"These tax changes will generate disparate changes for similar companies," says Todd Izzo. "You might for example have two US bidders for a UK asset and the tax changes could have very different impacts for each bidder. If the bidding company has significant global revenues you can't just consider the UK acquisition - what else you own might change your view on the tax implications."

The one-off repatriation tax is also a double-edged sword for M&A, says Todd Izzo. "The tax opens up the opportunity to repatriate accumulated offshore earnings.And there is going to be a repatriation of cash, but how that will play out is not certain. It is true that companies that had earnings overseas were previously incentivised to invest overseas, but changes in the overall tax rate has made M&A financed from domestic resources more viable." The only unambiguous take-away from the tax reforms is that with impacts so complex it is going to take time for companies to process the effects on their own cross-border investment plans - and that itself might induce a pause in M&A.

"As companies do the calculation, some will find they are incentivised to do M&A, and some will find the opposite," says Todd Izzo. "Inbound investment tax advantages have been cut, but the tax rate has come down. And for outbound investment the impact will be a function of how a potential acquisition fits into the global profit structure. The only broad conclusion you can draw is that all taxpayers will have to take some time to model the impacts."

Impacts of US tax reform on private equity

Changes in the tax law may lead to longer holding periods of portfolio companies of private equity investors.

Some changes included in the tax reform are particularly relevant to financial investors. The treatment of carried interest under the new regulation requires funds to hold investments for a minimum of three years to be entitled for the beneficial capital gains treatment of 20 percent (vs. up to 39.6 percent for ordinary income), which is up from one year under the old regulation. This is likely to lead to longer holding periods of investments. This could well lead to negative effects on deal flow in the short-term.

Furthermore, there are counteracting changes in the tax deductibility of capital expenses and interest. Companies are now able to immediately expense 100 percent of certain business assets acquired through 2022, thanks to the new law's capital expensing provisions. On the other hand, there now are limits on how much interest can be deducted, impacting the amount of leverage that can be supported in a buyout transaction.

Clouds arise on the sky of global trade

Shortly after the implementation of the new tax reform, various changes to US trade policies have been put forward. These imply rising protectionism, which could in turn lead to increased uncertainty for transatlantic M&A.

On January 22, 2018, the US announced safeguard tariffs on imported residential washing machines as well as solar cells and modules, with certain country exclusions. The safeguard measures will take the form of tariff-rate quotas on washing machines and additional duties on solar cells and modules. Another step followed in March, with the announcement of tariffs of 25 percent for steel and 10 percent for aluminum imports with various exemptions.

These controversial measures intended to protect certain industries within the US are cause for widespread political debate and put pressure on the EU to find an appropriate response. Whatever the future course of this process, the measures are a sign of the increasingly protectionist view on trade among policy makers, which has the potential to affect cross-border M&A, increasing uncertainty and potentially slowing the pace of dealmaking. The exact consequences of these actions are still unclear, but the enhanced regulatory scrutiny will impact cross border deal making, especially for large or exposed transactions. In an environment that is protectionist-oriented it will be important for acquires to engage political stakeholders as early as possible.

Nevertheless, even with protectionist measures imposed, the US and EU are still open market economies providing the institutional setting for successful cross-border transactions.

2. Brexit

It is now accepted by almost all parties in the Brexit debate that there is not sufficient time to negotiate anything resembling a comprehensive trade agreement between the UK and the EU before March 2019, which marks the end of the two year negotiation period.

Much about the process of the UK leaving the EU remains uncertain and will likely remain so for several years. The apparently straightforward decision to leave the EU has been the greatest political, diplomatic and technical challenge that the UK has faced for many decades and sends waves of uncertainty across the whole EU. The impact on businesses operating within the UK, trading with the UK or investing in the UK has the potential to be immense.

2018 should see the UK negotiating an agreement on the parameters but not on the detail of its future relations with the EU. Attention will likely then turn to a 'transition period' of further negotiation, which the EU insists must end no later than December 2020.

The timetable for Brexit is far from clear. But at the time of writing, in early 2018, a possible path to Brexit process might include these three key stages:

The apparently straightforward decision to leave the EU has been the greatest political, diplomatic and technical challenge that the UK has faced for many decades and sends waves of uncertainty across the whole EU.

2018
On the current timetable, agreement on the withdrawal, transition and future framework is needed by October, to allow the deal to be ratified by UK parliament, the European Parliament and the Council of the EU. Given the tight timeframe, it is likely that only a framework for the future relationship will be agreed by then.

2019-2020+
During a potential transitionary period the UK will likely have to fulfil its EU obligations whilst losing its voting rights. The EU's proposed date for the conclusion of the transition period is the end of December 2020.

2020+
After the end of 2020 any implementation period will have come to an end. A free trade agreement will have to be in place by then, or all parties could unanimously agree to extend the transition period.

"It is unclear what will be agreed by the end of 2020, but it is hard to see the UK and the EU signing off on a full trade agreement in such a short time," says Ian Stewart, Deloitte UK's Chief Economist . "No comprehensive trade agreement in the world has been concluded in 18 months. The final trade settlement may take several years to emerge."

For businesses and investors the critical period is the first half of 2018. They will be asking whether they have sufficient reassurance of continuity and stability to keep their operational and investment plans on track. Many companies consider mid-2018 the breaking point: if they cannot by then see a viable future deal taking place, they will likely act as if there was no deal. "The antennae are now up", says Andy Wilson, US M&A Transaction Services Partner and Head of US/UK M&A Corridor. "And investor concerns are very specific: they are concerned about tariffs and about the availability of talented people. Many corporates are now saying that this is a deal risk. It is not unexpected: that is a natural evolution of the corporate viewpoint."

What are the potential impacts?

In a recent poll conducted by Deloitte[4], 300 companies operating in the UK were asked what their top Brexit priorities and challenges were. The results showed that surveyed companies' biggest worry, by far, is the potential for increased costs of trade. The threat of higher duties was the top challenge (at 37 percent) followed by macro uncertainty and currency volatility (28 percent). The top priority was to ensure tariff-free access to the EU Single Market (69 percent), followed by access to labour (23 percent). Among long-term agenda priorities, liberalised trade with non-EU countries was top (33 percent), followed by investment in skills and innovation (23 percent).

UK companies' biggest worry related to Brexit is increased costs of trade. Therefore, the top priority is to ensure access to the single market.

How could Brexit affect European business?

"The consequences of Brexit can be manifold and need to be analysed on a case by case basis. We clustered them into the three broad categories: people, trade and organisation to help clients assess potential consequences."

Ben Trask | Partner | Deloitte Financial Advisory GmbH

Market Access:
i.e. direct trade with UK customers (exports), imports and supplies

- Potentially no free movement of goods and services
- Capital and foreign exchange rate market uncertainties
- Effects of weak UK growth on exports (directly and indirectly)
- Reduced export opportunities due to tariff and non-tariff trade barriers
- Supply chain inefficiencies
- Potentially reduced access to London financial market

Movement of People:
i.e. multinational employment, expatriates, business travels

- End to free movement of people - limited employee mobility
- Implications on European personal tax regulations
- End of labour law regulations

Organisation:
i.e. operations, regulation, international trade

- Potentially no free capital movement
- British companies could potentially adopt different regulations in some sectors
- Difficulties regarding mergers with UK companies
- Implications on corporate tax laws

What can you do?

Assess your operating model and planned investments to maintain profitability and access to market

Assess your exposure and develop a strategy for retention of people

Assess the impact of regulatory changes on your existing strategy

3. Availability of cash

After several years of slow earnings growth, many companies in Europe have rationalised their operating expenses and boosted productivity while reducing their financial leverage. Most that have come through this process now have built up large amounts of cash and some look to the US as a way to tap a very large market and realise new economies of scale.

This is evident by the record levels of undeployed capital available to corporates and private equity investors. After a period of low capital investment and higher profits, many companies have substantial cash reserves. At the same time, private equity funds have benefitted from the low returns available from conventional investments and many have unprecedented amounts of dry powder available to invest.

65 percent of corporate executives polled in the recent Deloitte US M&A Trends Survey[5] said that their cash reserves have increased. This is a notable shift compared to a previous Deloitte survey in 2016 were only 58 percent said so[6]. Moreover, using excess cash for M&A opportunities is the most prevalent strategy to make use of undeployed capital.

Alternative Lending

Alternative Lenders are on the rise in Europe providing liquidity to finance M&A.

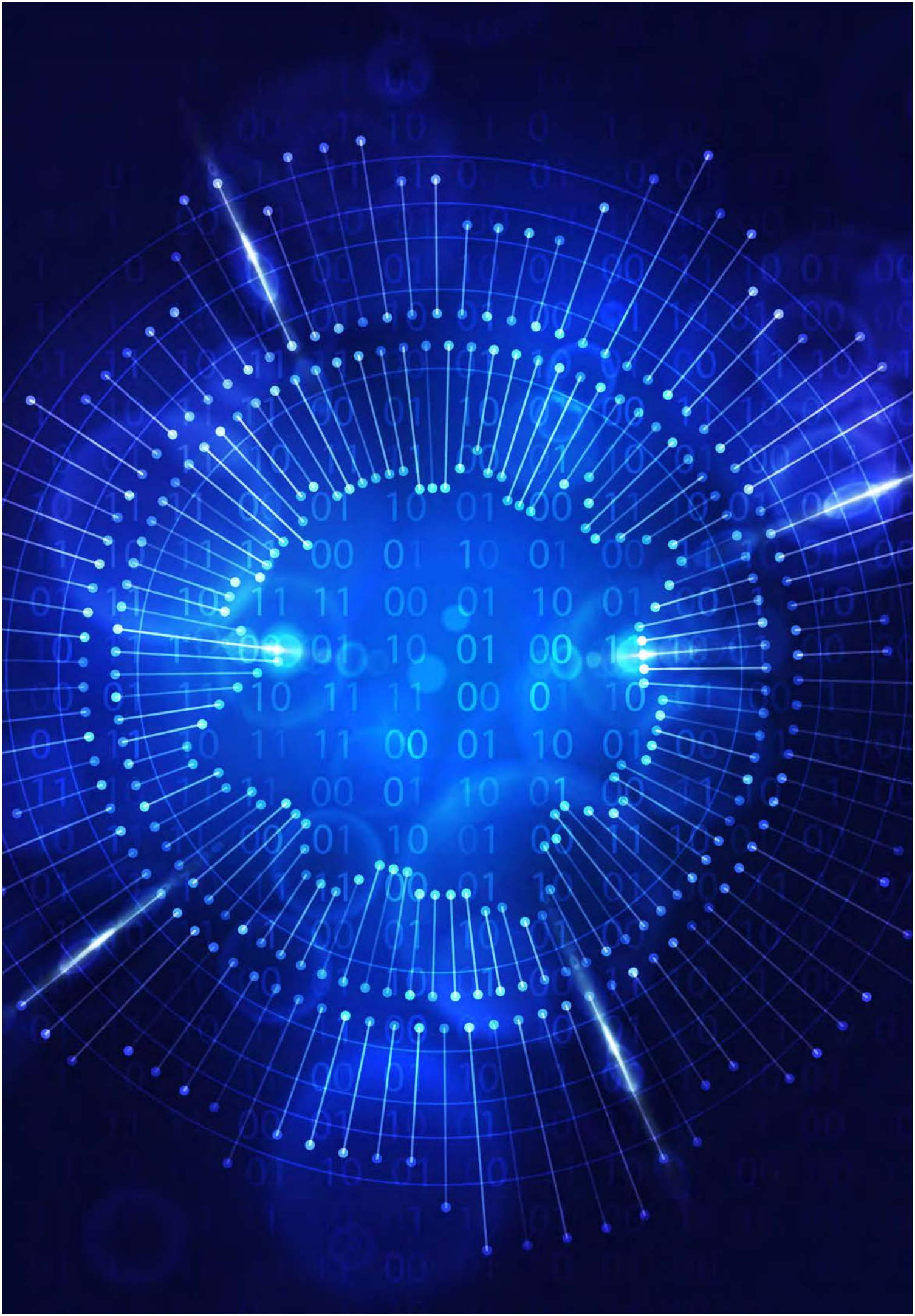
Since 2000, assets under management of Alternative Lenders increased to $ 600 billion which corresponds to a growth rate of 20 percent per annum[7]. This trend is expected to continue. In 2017, European fundraising grew to $ 24.5 billion, which is a large increase compared to the $ 11.5 billion raised in 2016. Analysing how firms are utilising this liquidity, a recent Deloitte survey showed that the majority of deals financed by Alternative Lenders in Europe are M&A related[8].

"By providing liquidity with little or no equity dilution, Alternative Lenders can offer an attractive way of financing M&A. Often the ability to provide structural flexibility paired with fast decision making processes at Alternative Lenders can be the key to realising a company's growth strategy."

Andreas Hampel
Senior Manager | US/AT Corridor Leader | Deloitte Financial Advisory GmbH

High levels of divestitures further increase cash positions

According to the recent US M&A Trends Survey[9], divestitures had a strong year in 2017 and are on track to remain in vogue in 2018. Some 70 percent of both US corporate and private equity respondents say they plan to sell units or assets in 2018, up from 48 percent in the spring of 2016. On the corporate side, survey respondents cite a change in strategy as their top reason to divest businesses. Divestitures can be an effective tool to unlock greater shareholder value from portfolio realignment. Especially in relative low growth economies, a large proportion of earnings growth is delivered through focused corporate strategies. Companies are reviewing their portfolios of assets and asking if they are the right owners of any given business. Where the existing portfolio is not delivering optimal shareholder value or does not have a clear strategic fit, the result is often a decision to divest under-performing or non-core assets. Companies then use the resulting additional time, resources, and capital to focus on growth activities.



4. The innovation advantage

Technology is the main driver of deal activity in today's economy. The US and Europe are both centres for innovation and collaboration, facilitating deal making along the corridor.

Analysing deal counts per sector for the US/EU corridor shows that the technology, media and telecoms (TMT) sector is by far the most active. The US is a primary destination for EU technology investors, but the number of US outbound deals is substantially higher than EU outbound deals.

While the definition of 'technology' in M&A dealmaking is wide, the size of the TMT deal flow correlates with companies' need to capture innovation: says Scott Campbell of Deloitte UK Ventures; "tech acquisition is not the same as innovation, but in practice you can use it as a proxy for innovation."

Many of these technology deals focus on data and the ability to extract value from the customer data that is being generated at ever greater rates as economies become fully digitised. The M&A flow between the US and EU is part of a wider collaboration strategy as all companies - not just technology companies - grapple with the digitisation of business.

"What is hot is data" says Andy Wilson. "The companies that are actually buying are buying data in one way or another. That should continue to drive deals because data growth is exponential. But how you manage that data is much more important than just capturing and storing data."

Many recent TMT deals were in excess of half a billion US dollars, but there were many more smaller technology focused deals in software publishing and services, financial technology including online crowd-funding, energy management software and IT services. The pattern of these deals is clear: M&A in the physical technology space is giving way to deals that focus on data and the commercial applications of data. That includes many acquisitions by companies not themselves pure technology companies but those which need to capture the data innovation and embed it in their businesses.

As John Hagel, Co Chairman for Deloitte's Center for the Edge, comments, "companies are focusing on innovation because they know that if they are not coming up with new things they will be left behind. You can no longer depend on the conventional assets you hold. If you look at the last fifty years the return on assets has collapsed, while the return on innovation has been rising."

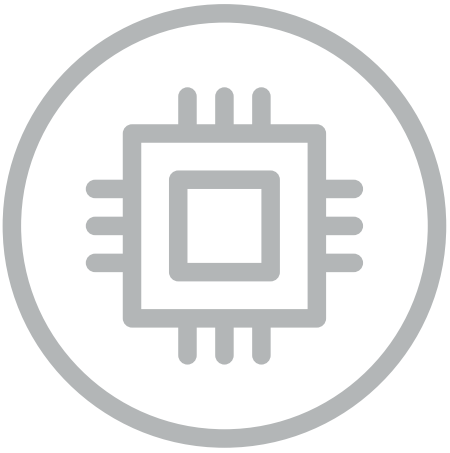
Skills & automation

Skills availability and the potential for automation to meet skills shortages are key concerns for external investors as well as US and EU businesses alike. Automation, robotics and machine learning are likely to become a growing part of innovation.

Some instances of automation are already familiar: industrial robots that can assemble, test, inspect and package products are already being deployed in the manufacturing industry. In the wholesale and retail industry, self-service check-outs have been widely adopted, while some organisations are also adopting robots in their warehouses to work alongside humans, packing or re-arranging shelves.

Automation is also having an impact higher up the value chain. In data intensive roles automation technologies such as Robotic Process Automation (RBA) can automate repetitive tasks such as transaction processing, data manipulation and communication across multiple digital systems, and are being implemented in the administrative and support services industry. In the legal profession, artificial intelligence applications are already busy checking contract terms for anomalies and inconsistencies.

Getting ready for automation is a challenge but also an opportunity that will have to be met at least in part by cross-border collaboration in robotics, data analysis and artificial intelligence. We expect these to become central themes in the US/EU M&A flow in coming years.



Country focus Austria US outbound M&A

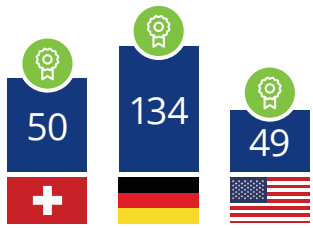
The US is one of the most important M&A counterparts for the Austrian economy. Over the last five years, the US ranked third in terms of inbound investments into Austria and second with regards to outbound acquisitions of Austrian companies abroad.

US outbound M&A

US outbound activity into Austria increased in the last five years, both in terms of value and volume. This is in contrast to the development of total US outbound M&A activity in Europe, which stagnated in recent years.

Analysing the top foreign acquirers in Austria over the last five years, shows that German investors purchase most targets, followed by Switzerland and the US in third place. This reflects the ongoing strong interest US firms share towards Austrian target companies.

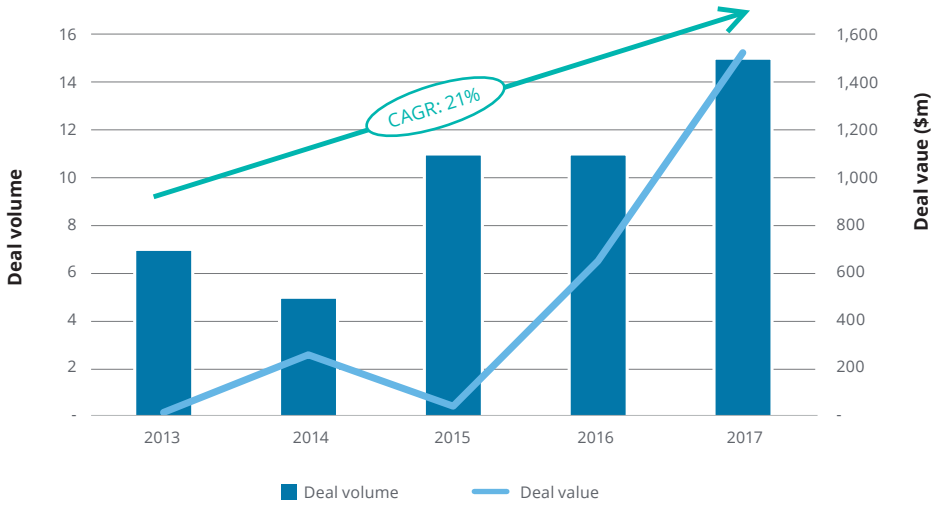
Top inbound acquirers in Austria in the last five years by deal volume



Source: Thomson One Banker

The largest transactions by US buyers in recent years include the acquisition of Constantia-Labels by the Multi-Color Corporation for a consideration of $ 1.3 billion and the acquisition of PE-owned software firm Automic Software by CA Inc. for $ 636 million. These acquisitions are drivers behind the sharp rise of US outbound deal values 2017 and 2016 respectively.

US outbound acquisitions in Austria



Source: Thomson One Banker

"US firms are one of the most important M&A counterparts for Austria and a significant investor. The attractiveness of our business location, coupled with the innovativeness of domestic companies and our beneficial geopolitical situation, make Austria the perfect gateway for both Western and Eastern Europe."

Albert Hannak | Partner | Deloitte Financial Advisory GmbH

Austrian outbound M&A

Austrian outbound M&A

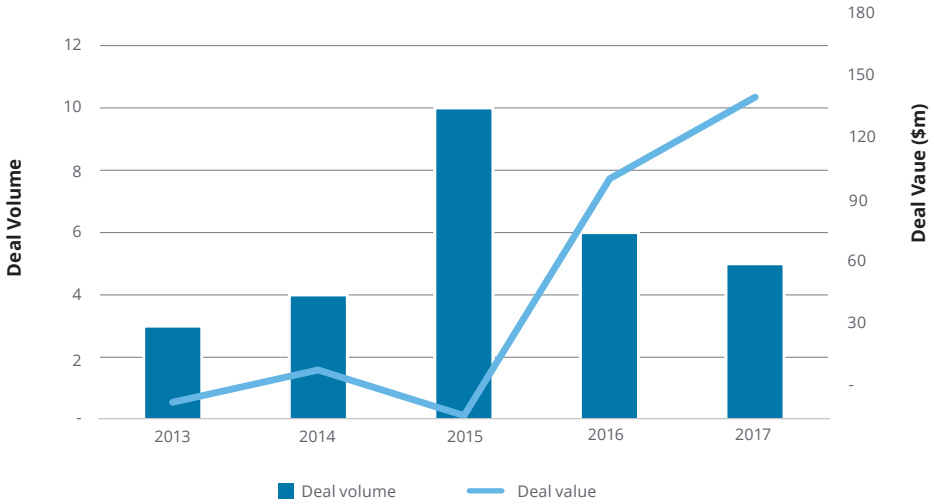
Similar to other European countries, Austria is a net importer of deal flow and considerably less active along the transatlantic corridor than the US. However, looking at the top target countries of Austrian investors shows that the US plays a major role in Austrian outbound transactions, ranked second behind Germany on a volume basis over the last five years.

Recently, Austrian outbound deal flow into the US has decreased to five transactions, from its peak in 2015. The largest Austrian outbound deal in 2017 was the acquisition of healthcare equipment firm Princeton Optronics Inc by AMS AG, for a total consideration of $ 128 million. Looking at the first two months of 2018, the data shows a strong activity, with two Austrian firms announcing to acquire a US target.

Top Austrian outbound target countries in the last five years by deal volume

Source: Thomson One Banker

Austrian outbound acquisitions in US



Source: Thomson One Banker

PE/ corporate split

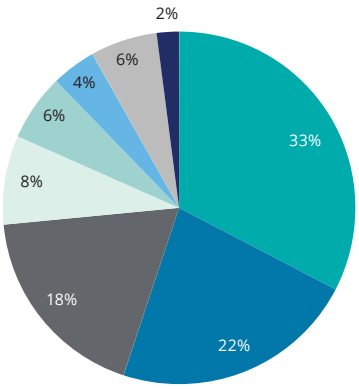
Traditionally, Austrian acquisitions in the US are predominantly conducted by strategic investors, due to the limited activity of Austrian private equity investors. One exception is the acquisition of Bitmovin Inc. in 2016 by an investor group including Austrian financial investor Speedinvest. Looking at US acquires in Austria, the picture is more balanced as approximately one-third of transactions is accompanied by financial investors.

Industry analysis

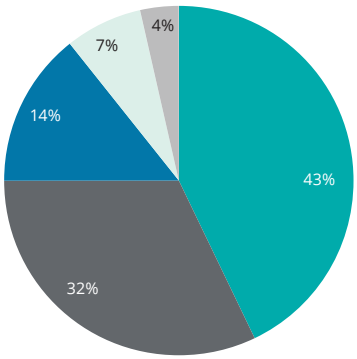
Dominant target sectors along the corridor are technology and manufacturing, making up over 50 percent of Austrian and 75 percent of US targets. This reflects the increasing importance of technology in M&A, as companies on both sides of the Atlantic are fighting to keep up with the increased pace of innovation in their industries.

Target sector analysis

US outbound



AT outbound

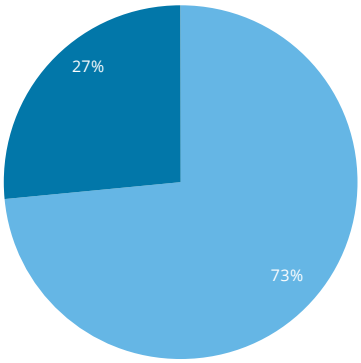


- TMT
- Consumer Business
- Manufacturing
- Life Science, Health
- Real Estate
- Energy & Resources
- Business, Infrastructure & Prof. Services
- FSI

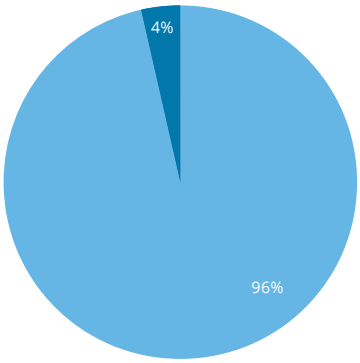
Source: Thomson One Banker

PE/corporate split

US outbound



AT outbound



- Corporate backed
- Sponsor backed

Source: Thomson One Banker

Austria is an attractive place for foreign investors

Austria has a highly internationalised economy, that attracts foreign investors due to a mixture of various appealing factors. Given its geopolitical location at the heart of Europe, an investment in Austria can be an entry step for further expansion towards Western but also especially Eastern European countries.

Deloitte analyses Austria's international competitiveness on a regular basis. The Deloitte Radar[10] highlights strengths of Austria as a business location but also emphasises areas with need for further improvement. The results show a recent increase in overall competitiveness. The Austrian macroeconomic environment improved due to strong GDP growthh (2.9% in 2017)[11], rising investments and falling unemployment rates (5.5% in 2017)[12].

Businesses benefit from an overall good state of infrastructure, highly educated workforce and tax incentives for companies to invest in research and development. Cuts in red tape and regulatory requirements in areas such as finance, labour law, health and transportation are signalled by political players but the degree of implementation remains to be seen.

Finally, Vienna consistently ranks as the city with the highest living standards[13].

Conclusion

Dealmaking by US acquirers in the EU cooled down in 2017 while EU investments in the US reached record heights. Uncertainties over the impact of the US tax reform and the final shape of the UK's Brexit deal are the background to this divergence. Looking at the bigger picture, we expect continuously strong M&A activity in the future.

The underlying forces that drive M&A in the US/EU corridor are still strong and expected to remain so in the future; namely, record levels of cash on balance sheets and funds raised by private equity, combined with low interest rates and the drive for technology and innovation. The restraining factors are temporary.

The US tax reform impact on dealmaking is most clearly a short-term effect. The complexity of the new provisions on tax treatment of offshore accumulated earnings and new base erosion provisions affecting foreign sourcing means that deals that are unsigned may have to be revisited for a new assessment of tax implications and in some cases postponed. This effect is unlikely to extend beyond the first half of 2018.

The impact of Brexit is a deeper source of uncertainty, but it is also easy to overstate. As the point at which the final terms of the UK's exit from the European Union becomes closer, some companies are calculating what a 'no deal' scenario would mean to the profitability of UK assets that depend on trade with the EU. Yet the likelihood of 'no deal' is in fact small. "No serious person in the UK wants to pull up the drawbridge and cut the UK off," says Ian Stewart. "This isn't looking like a retreat into some sort of 'Little England'. In fact the UK Government is very focused an making the UK more competitive."

Signs of increased protectionism in the US are adding uncertainty but the effects on M&A still remain to be seen.

The technology imperative is unstoppable

Longer term, the continuing need for businesses to move their operations onto digital platforms and to acquire and manage customer data, is proving much stronger and more durable than short-term cycles of activity when it comes to driving M&A. Businesses that are not historically technology-based are choosing to acquire new digital technology capabilities. Businesses that always had technology at their core are expanding their reach in search of scale and future competitiveness.

The long view

Companies and clients frequently remind us that in a world of easy financing and moderate organic revenue growth, M&A is now the default growth strategy for businesses. Corporate investors have always taken the long view in M&A strategy, and increasingly financial investors are thinking about longer-term holding too.

Today's deals and the integrations that need to follow them will still be part of companies' operations long after the effects of tax reform or Brexit have been absorbed by the corporate economy. And in the long view it remains the case that US/EU M&A continues to run at a rate that is historically high and that there is little sign of a weakening of the underlying drivers of acquisition activity.

Looking into the future it seems like companies are on the right path to further improve their M&A capabilities as corporates and private equity firms are getting better at achieving the goals for their deals. The Deloitte US M&A Trends Survey[14] shows a substantial decrease as compared to the last survey in spring 2016 of participants saying that a majority of deals have not generated expected value or return in investment. This reflects the favourable M&A climate and may be facilitated by the ongoing incorporation of non-spreadsheet-based M&A technology tools among investors. These analytical tools make post-deal integration smoother and faster, reduce costs and conflict and shorten the time it takes to complete them.

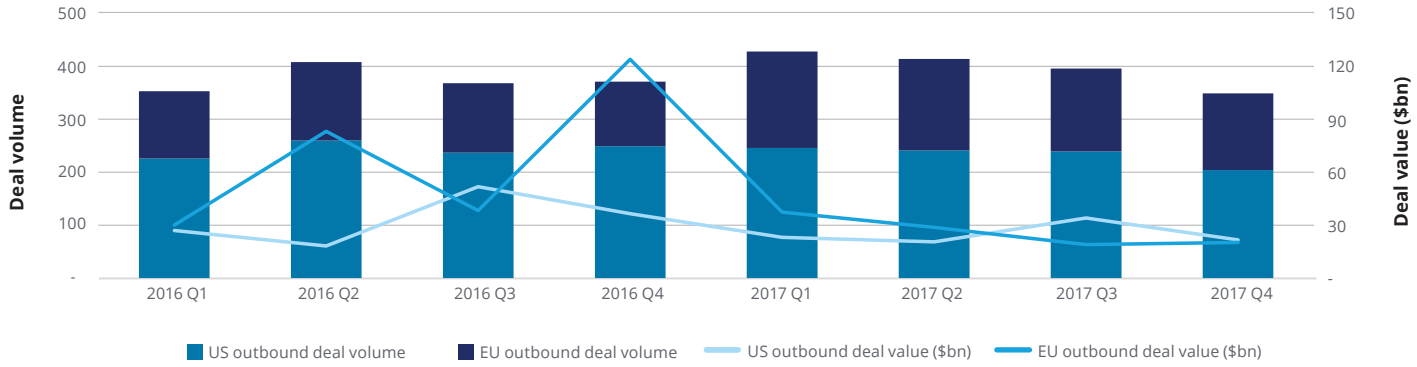
We expect investors to continue to take the long view. "The most powerful and value-creating acquisitions are made in the context of a long-term view of where your industry is headed," says John Hagel. "The longer your time horizon the more chance there is of capturing value that the market has not already captured."

Appendix
US/EU deal analysis

In this chapter, we analyse the US/EU deal corridor in more detail. The charts below depicts the number of announced transactions (deal volume) and the corresponding disclosed deal values on a quarterly basis.

Overview of M&A deal flow
Dealmaking remains high

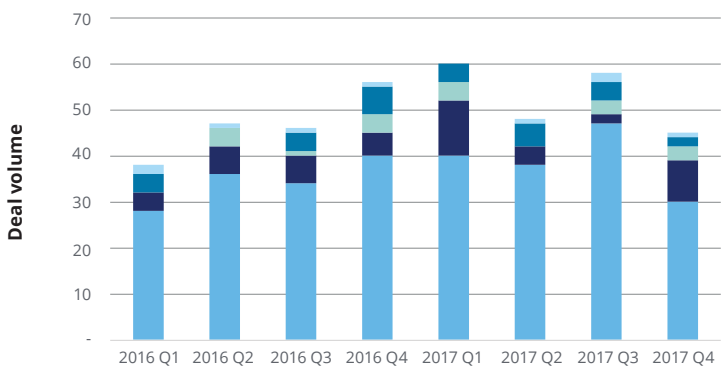
US/EU corridor by deal volume and value



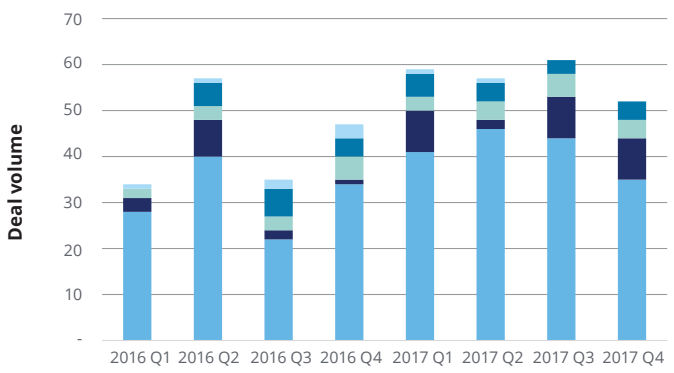
Source: Thomson One Banker

Breakdown of disclosed deal values
The majority of transactions with disclosed deal values is below $ 250 million.

US outbound



EU outbound



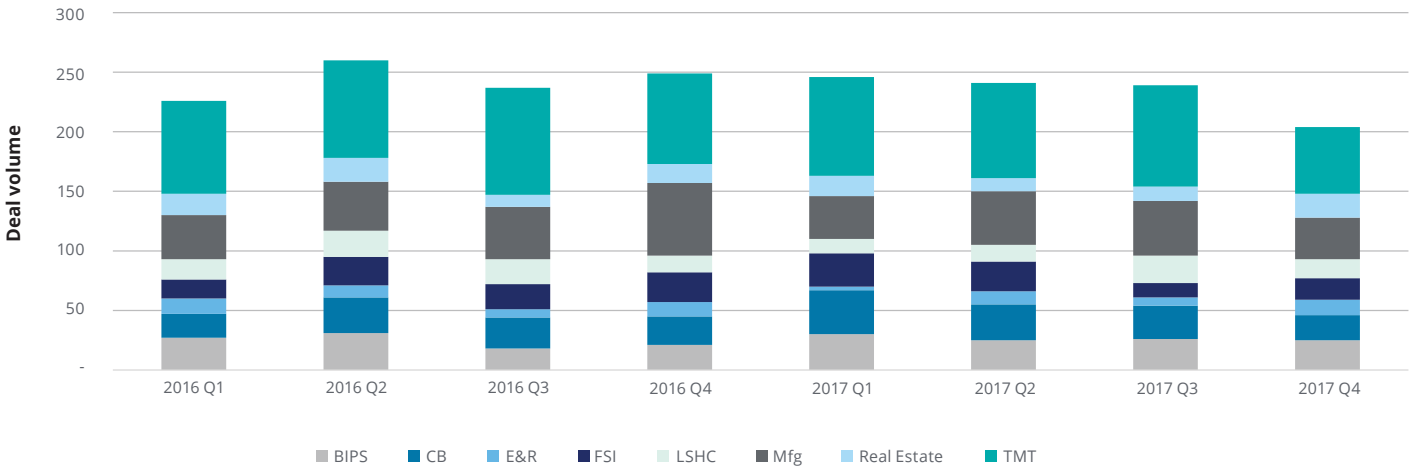
less than $250m | $250m - $500m | $500m - $1bn | $1bn - $5bn | Greater than $5bn

Source: Thomson One Banker

Deal volume by industry

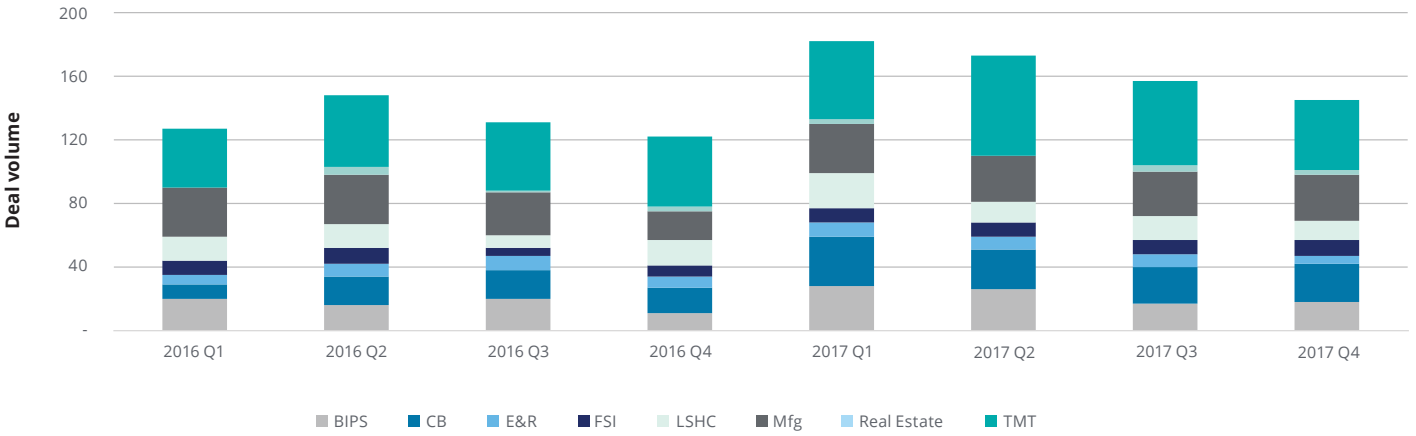
Looking at the target sectors of announced deals shows that TMT is the most active sector along both directions of the corridor followed by manufacturing.

US outbound



Source: Thomson One Banker

EU outbound



Source: Thomson One Banker

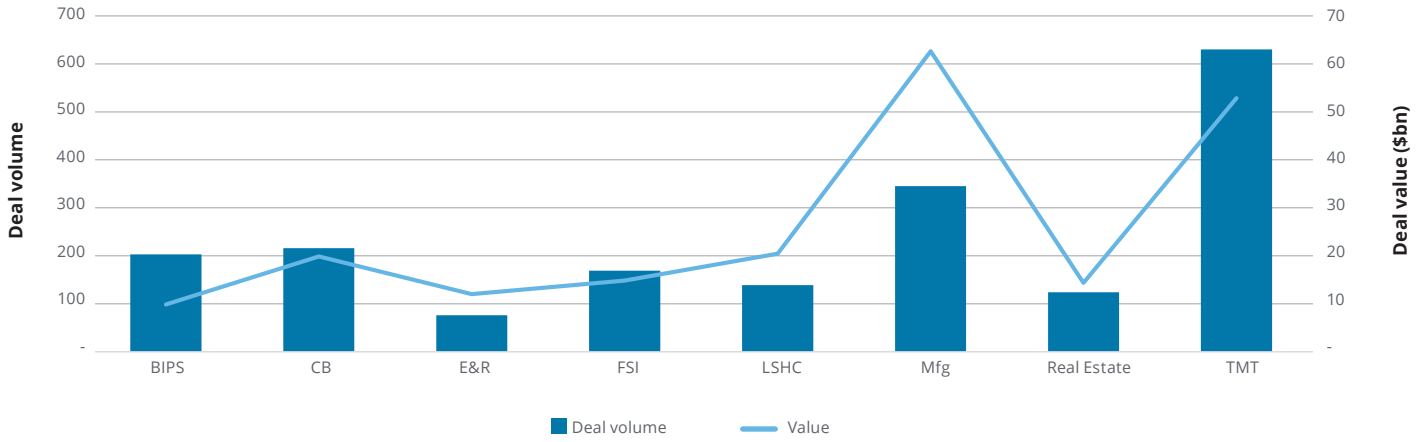
Sector classification

- BIPS: Business, Infrastructure & Prof. Services
- CB: Consumer Business
- E&R: Energy & Resources
- FSI: Financial Services & Insurance
- LSHC: Life Sciences & Healthcare
- Mfg: Manufacturing
- RE: Real Estate
- TMT: Technology, Media & Telecommunications

Accumulated deal volume and value by industry (Q1 2016 – Q4 2017)

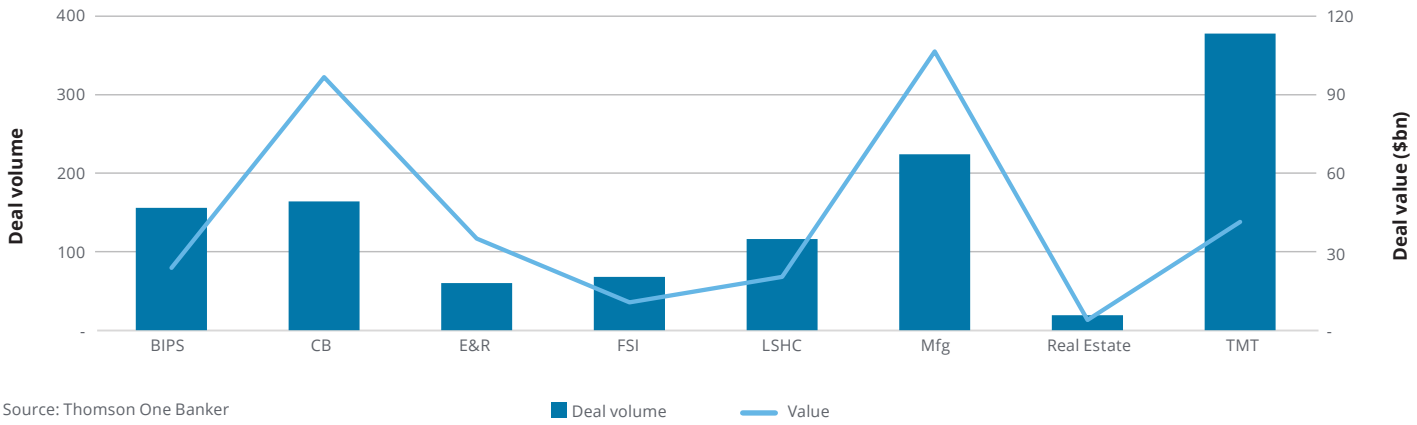
TMT and manufacturing were the sectors with the highest figures of disclosed deal values.

US outbound



Source: Thomson One Banker

EU outbound

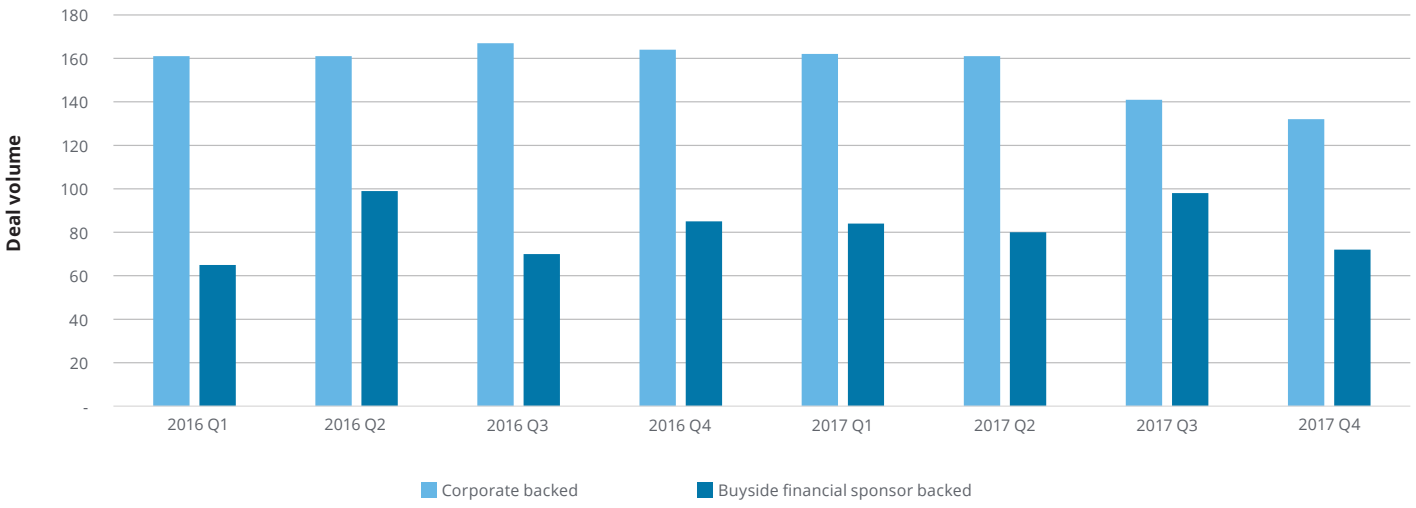


Source: Thomson One Banker

Corporate/PE split

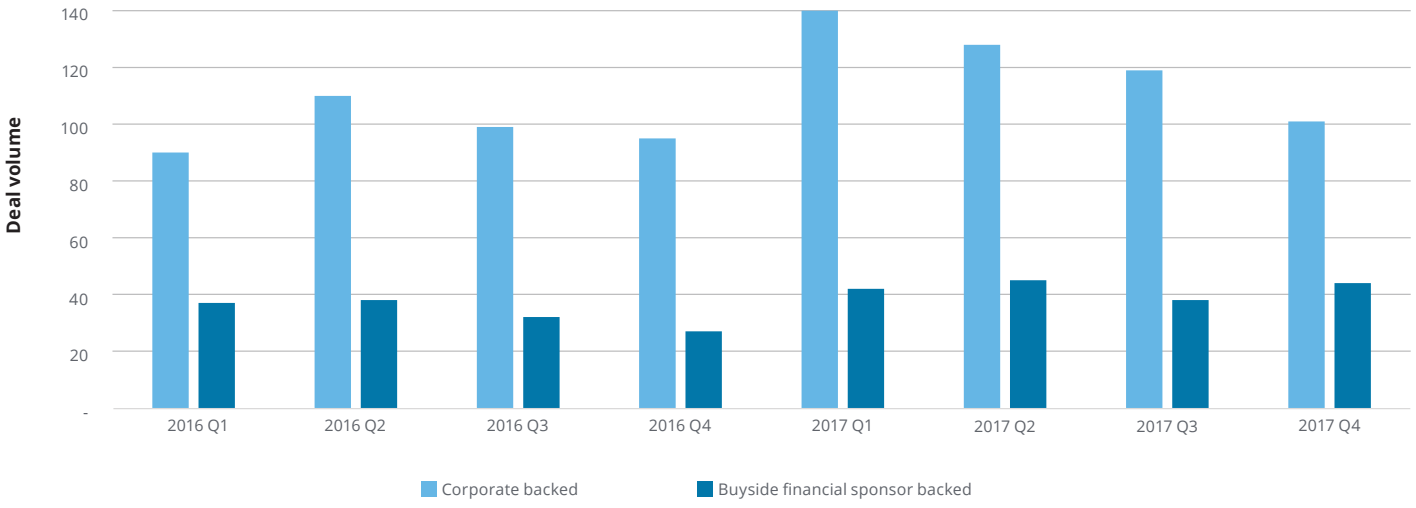
The charts below illustrate the number of corporate and private equity backed acquisitions along the corridor. Private equity investors play an especially large role in US outbound deal activity.

US outbound



Source: Thomson One Banker

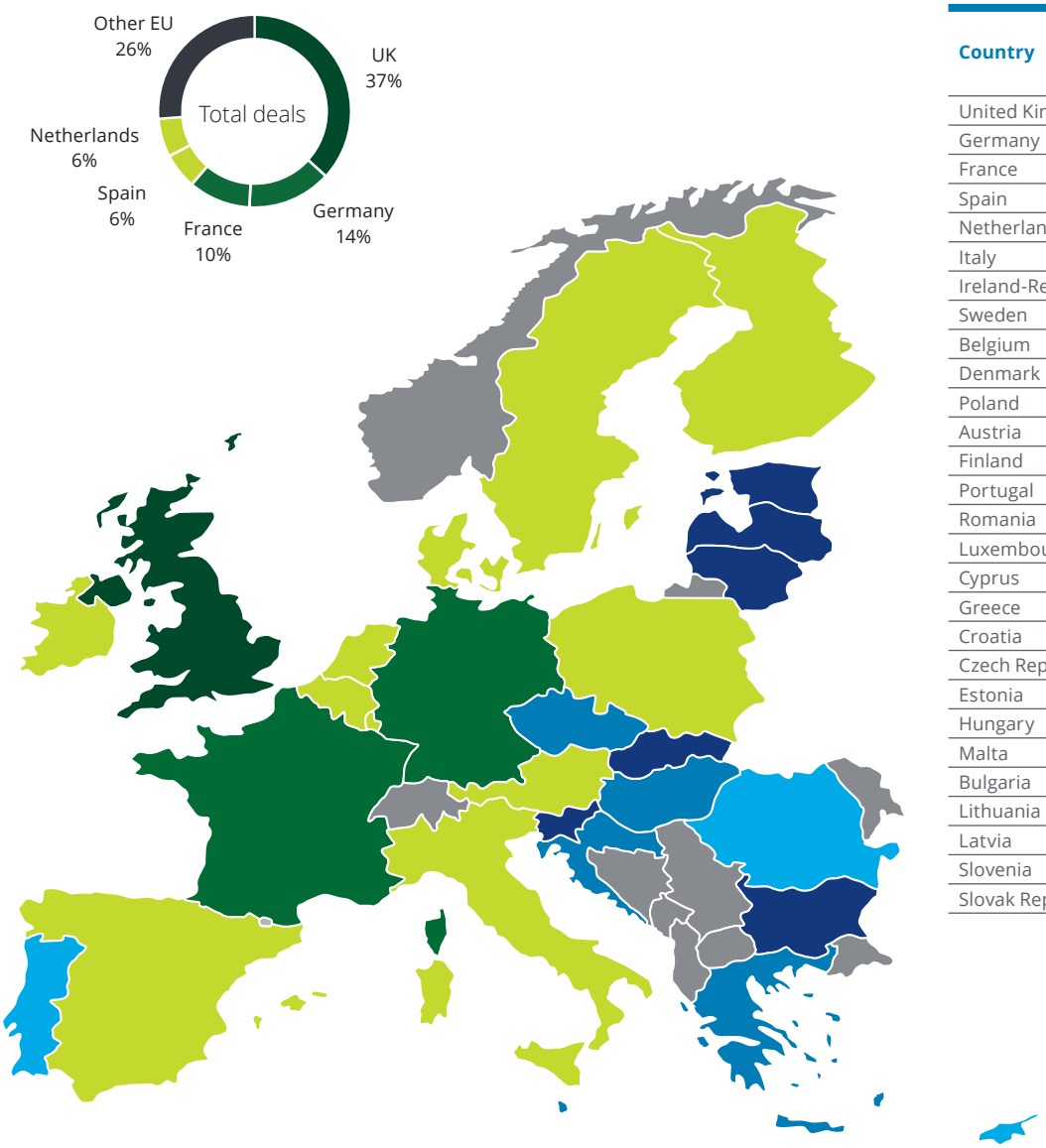
EU outbound



Source: Thomson One Banker

Accumulated dealmaking by country (Q1 2016 – Q4 2017)

Within Europe, the UK accounts for the most transactions along the US/EU corridor. Germany and France follow, with France showing fairly balanced inbound and outbound activity.



Country	Deal volume (inbound / outbound)	Ratio (inbound/ outbound)
United Kingdom	(696/439)	1.6
Germany	(248/188)	1.3
France	(162/160)	1.0
Spain	(140/45)	3.1
Netherlands	(134/66)	2.0
Italy	(123/25)	4.9
Ireland-Rep	(77/74)	1.0
Sweden	(57/74)	0.8
Belgium	(45/19)	2.4
Denmark	(45/16)	2.8
Poland	(28/6)	4.7
Austria	(26/11)	2.4
Finland	(24/17)	1.4
Portugal	(15/0)	n/a
Romania	(14/1)	14.0
Luxembourg	(13/32)	0.4
Cyprus	(9/2)	4.5
Greece	(9/0)	n/a
Croatia	(8/0)	n/a
Czech Republic	(7/2)	3.5
Estonia	(4/0)	n/a
Hungary	(4/2)	2.0
Malta	(4/2)	2.0
Bulgaria	(3/1)	3.0
Lithuania	(3/0)	n/a
Latvia	(2/3)	0.7
Slovenia	(2/0)	n/a
Slovak Republic	(0/0)	n/a

Hot
Warm
Cold
Non-EU

Note: Deal volumes cover Q1 2016 – Q4 2017
Source: Thomson One Banker

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End notes

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Deloitte.